MDC HOLDINGS INC
Form 10-Q
May 02, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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	**84-0622967**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer identification no.)**
4350 South Monaco Street, Suite 500	**80237**

Denver, Colorado
(Address of principal executive offices) **(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 x No ¨

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

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

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

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

As of April 25, 2013, 48,869,726 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 March 31, 2013

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ITEM 1. Unaudited Consolidated Financial Statements

M.D.C. HOLDINGS, INC.

Consolidated Balance Sheets

	March 31, 2013	December 31, 2012
	(Dollars in thousands, except per share amounts)	
	(Unaudited)	
ASSETS		
Homebuilding:		
Cash and cash equivalents	$ 183,236	$ 129,535
Marketable securities	626,707	519,465
Restricted cash	2,526	1,859
Trade and other receivables	31,885	28,163
Inventories:		
Housing completed or under construction	521,661	512,949
Land and land under development	534,438	489,572
Total inventories	1,056,099	1,002,521
Property and equipment, net	33,056	33,125
Deferred tax asset, net of valuation allowance of $238,795 and $248,306 at March 31, 2013 and December 31, 2012, respectively	-	-
Other assets	52,274	44,777
Total homebuilding assets	1,985,783	1,759,445
Financial Services:		
Cash and cash equivalents	32,444	30,560
Marketable securities	33,292	32,473
Mortgage loans held-for-sale, net	86,429	119,953
Other assets	4,386	3,010
Total financial services assets	156,551	185,996
Total Assets	$ 2,142,334	$ 1,945,441
LIABILITIES AND EQUITY		
Homebuilding:		
Accounts payable	$ 21,712	$ 73,055
Accrued liabilities	115,139	118,456
Senior notes, net	995,032	744,842
Total homebuilding liabilities	1,131,883	936,353
Financial Services:		
Accounts payable and accrued liabilities	54,540	51,864
Mortgage repurchase facility	41,468	76,327

Total financial services liabilities		96,008		128,191
Total Liabilities		1,227,891		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; 48,869,726 issued and outstanding at March 31, 2013 and 48,698,757 issued and outstanding, respectively, at December 31, 2012		489		487
Additional paid-in-capital		905,354		896,861
Retained earnings		1,227		(21,289)
Accumulated other comprehensive income (loss)		7,373		4,838
Total Stockholders Equity		914,443		880,897
Total Liabilities and Stockholders Equity	$	2,142,334	$	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 March 31,	
	2013	2012
	(Dollars in thousands, except per share amounts)	
	(Unaudited)	
Homebuilding:		
Home sale revenues	$ 331,748	$ 184,678
Land sale revenues	-	1,590
Total home sale and land revenues	331,748	186,268
Home cost of sales	(274,076)	(158,654)
Land cost of sales	-	(1,490)
Total cost of sales	(274,076)	(160,144)
Gross margin	57,672	26,124
Selling, general and administrative expenses	(48,201)	(34,124)
Interest income	6,182	5,913
Interest expense	(817)	(808)
Other income (expense), net	11	158
Homebuilding pretax income (loss)	14,847	(2,737)
Financial Services:		
Revenues	12,506	7,720
Expenses	(5,642)	(3,665)
Interest and other income	875	807
Financial services pretax income	7,739	4,862
Income before income taxes	22,586	2,125
Benefit from (provision for) income taxes	(70)	140
Net income	$ 22,516	$ 2,265
Other comprehensive income:		
Unrealized gain related to available-for-sale securities	2,535	6,548
Tax effect	-	-

Comprehensive income	$	25,051	$	8,813
Earnings per share:				
Basic	$	0.46	$	0.04
Diluted	$	0.45	$	0.04
Weighted average common shares outstanding:				
Basic		48,342,145		47,311,840
Diluted		48,922,335		47,382,921
Dividends declared per share	$	-	$	0.25

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

M.D.C. HOLDINGS, INC.

Consolidated Statements of Cash Flows

	Three Months Ended March 31, 2013	2012
	(Dollars in thousands) (Unaudited)	
Operating Activities:		
Net income	$ 22,516	$ 2,265
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Stock-based compensation expense	3,376	2,611
Depreciation and amortization	1,078	1,307
Write-offs of land option deposits	226	82
Amortization of discount (premiums) on marketable debt securities	619	(152)
Net changes in assets and liabilities:		
Restricted cash	(667)	(413)
Trade and other receivables	(3,970)	(11,062)
Mortgage loans held-for-sale	33,524	23,345
Housing completed or under construction	(8,618)	(45,875)
Land and land under development	(44,770)	17,000
Other assets	(6,696)	3,394
Accounts payable and accrued liabilities	(52,036)	(11,315)
Net cash used in operating activities	(55,418)	(18,813)
Investing Activities:		
Purchase of marketable securities	(150,811)	(185,610)
Sale of marketable securities	44,668	182,021
Purchase of property and equipment	(926)	(364)
Net cash used in investing activities	(107,069)	(3,953)
Financing Activities:		
Payments on mortgage repurchase facility	(79,769)	(53,625)
Advances on mortgage repurchase facility	44,910	30,763
Dividend payments	-	(11,994)
Proceeds from issuance of senior notes	247,813	-
Proceeds from exercise of stock options	5,118	-
Net cash provided by (used in) financing activities	218,072	(34,856)
Net increase (decrease) in cash and cash equivalents	55,585	(57,622)
Cash and cash equivalents:		
Beginning of period	160,095	343,361

End of period	$ 215,680	$ 285,739

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

M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements

1. Basis of Presentation

The Unaudited Consolidated Financial Statements of M.D.C. Holdings, Inc. (MDC, the Company, we, us, or 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 March 31, 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, litigation and human resources. Corporate also provides the necessary administrative functions to support MDC as a publicly traded company. A portion of the expenses incurred by Corporate are allocated to the homebuilding operating segments based on their respective percentages of assets, and to a lesser degree, a portion of Corporate expenses are allocated to the financial services segments. A majority of Corporate s personnel and resources are primarily dedicated to activities relating to the homebuilding segments, and, therefore, the balance of any unallocated Corporate expenses is included in the homebuilding segment.

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

	Three Months Ended March 31,	
	2013	**2012**
Homebuilding	**(Dollars in thousands)**	
West	$ 134,979	$ 69,542
Mountain	133,377	60,591
East	63,392	56,135
Total home and land sale revenues	$ 331,748	$ 186,268
Financial Services		
Mortgage operations	$ 9,044	$ 5,456
Other	3,462	2,264
Total financial services revenues	$ 12,506	$ 7,720

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

	Three Months Ended March 31,	
	2013	**2012**
Homebuilding	**(Dollars in thousands)**	
West	$ 10,611	$ 166
Mountain	12,996	2,159
East	1,528	2,100
Corporate	(10,288)	(7,162)
Total homebuilding pretax income	$ 14,847	$ (2,737)

Financial Services		
Mortgage operations	$ 5,999	$ 3,339
Other	1,740	1,523
Total financial services pretax income	$ 7,739	$ 4,862

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 and marketable securities.

	March 31, 2013	December 31, 2012
Homebuilding assets	(Dollars in thousands)	
West	$ 518,143	$ 459,807
Mountain	328,712	332,939
East	280,659	274,199
Corporate	858,269	692,500
Total homebuilding assets	$ 1,985,783	$ 1,759,445
Financial services assets		
Mortgage operations	$ 91,565	$ 122,941
Other	64,986	63,055
Total financial services assets	$ 156,551	$ 185,996

4. Earnings (Loss) Per Share

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

	Three Months Ended March 31, 2013	2012
	(Dollars in thousands, except per share amounts)	
Basic and Diluted Earnings Per Common Share:		
Net income	$ 22,516	$ 2,265
	(375)	(160)

Less: distributed and undistributed earnings allocated to participating securities		
Net income attributable to common stockholders	$ 22,141	$ 2,105
Basic weighted-average shares outstanding	48,342,145	47,311,840
Dilutive effect of common stock equivalents	580,190	71,081
Diluted weighted-average common shares outstanding	48,922,335	47,382,921
Basic Earnings Per Common Share	$ 0.46	$ 0.04
Diluted Earnings Per Common Share	$ 0.45	$ 0.04

Diluted EPS includes the dilutive effect of common stock equivalents and is computed using the weighted-average number of common stock and common stock equivalents outstanding during the reporting period. Common stock equivalents include stock options. Diluted EPS for the three months ended March 31, 2013 and 2012 excluded options to purchase approximately 2.9 million shares and 5.0 million shares, respectively, of common stock because the effect of their inclusion would be anti-dilutive.

M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements

5. Other Comprehensive Income

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

	Three Months Ended March 31,	
	2013	**2012**
	(Dollars in thousands)	
Unrealized gains (losses) on available-for-sale securities:		
Beginning balance	$ 4,838	$ (7,240)
Other comprehensive income before reclassifications	2,221	6,419
Amounts reclassified from accumulated other comprehensive income (see table below)	314	129
Ending balance	$ 7,373	$ (692)

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

Gains (losses) on available for sale securities reclassified out of other comprehensive income

	Three Months Ended March 31,	
<u>**Affected Line Item in the Statements of Operations**</u>	**2013**	**2012**
	(Dollars in thousands)	
Homebuilding interest income	$ (295)	$ (216)
Financial services interest and other income	(19)	87
Income (loss) before income taxes	$ (314)	$ (129)

6. Fair Value Measurements

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

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

Financial Instrument	Hierarchy	Fair Value March 31, 2013	Fair Value December 31, 2012
		(Dollars in thousands)	
Marketable Securities (available-for-sale)			
Equity securities	Level 1	$ 310,039	$ 208,818
Debt securities - maturity less than 1 year	Level 2	119,347	54,388
Debt securities - maturity 1 to 5 years	Level 2	212,205	277,514
Debt securities - maturity greater than 5 years	Level 2	18,408	11,218
Total available-for-sale securities		$ 659,999	$ 551,938
Mortgage Loans Held-For-Sale, net	Level 2	$ 86,429	$ 119,953

M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and Cash Equivalents. For cash and cash equivalents, the fair value approximates carrying value.

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

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

	March 31, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Homebuilding:	(Dollars in thousands)			
Equity security	$ 305,917	$ 310,039	$ 208,279	$ 208,818
Debt securities	313,766	316,668	306,793	310,647
Total homebuilding available-for-sale securities	$ 619,683	$ 626,707	$ 515,072	$ 519,465
Financial Services:				
Total financial services available-for-sale debt securities	$ 32,942	$ 33,292	$ 32,028	$ 32,473
Total available-for-sale marketable securities	$ 652,625	$ 659,999	$ 547,100	$ 551,938

As of March 31, 2013 and December 31, 2012, our marketable securities (homebuilding and financial services in aggregate) were in an unrealized gain position of $7.4 million and $4.8 million, respectively.

Mortgage Loans Held-for-Sale, Net. As of March 31, 2013, the primary components of our mortgage loans held-for-sale that are measured at fair value on a recurring basis are: (1) mortgage loans held-for-sale under commitments to sell; and (2) mortgage loans held-for-sale not under commitments to sell. At March 31, 2013 and December 31, 2012, we had $64.9 million and $108.3 million, respectively, of mortgage loans held-for-sale under commitments to sell for which fair value was based upon Level 2 inputs, which were the quoted market prices for those mortgage loans. At March 31, 2013 and December 31, 2012, we had $21.6 million and $11.7 million, respectively, of mortgage loans held-for-sale that were not under commitments to sell. The fair value for those loans was primarily based upon the estimated market price received from an outside party which is a Level 2 fair value input.

Metro District Bond Securities (Related Party). The Metro District Bond Securities are included in prepaid expenses and other assets in the Homebuilding section of our accompanying consolidated balance sheets. We acquired the Metro District Bond Securities from a quasi-municipal corporation in the state of Colorado. Because these assets are accounted for under the cost-recovery method, they are not carried at fair value. We estimated the fair value of the bonds based upon discounted cash flows as we do not believe there is a readily available market for such assets. The estimated cash flows from the bonds are ultimately based upon our estimated cash flows associated with building, selling and closing homes in one of our Colorado communities. The estimated fair values of these assets are based upon Level 3 cash flow inputs. Based upon this evaluation, the carrying value and estimated fair value of the bonds at March 31, 2013 was $5.8 million and $12.9 million, respectively. At December 31, 2012, the carrying value and estimated fair value of the bonds was $5.8 million and $12.9 million, respectively.

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

M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements

Homebuilding inventories are carried at cost unless events and circumstances indicate that the carrying value of the underlying subdivision may not be recoverable. We determine impairments on a subdivision level basis as each such subdivision represents the lowest level of identifiable cash flows. In making this determination, we review, among other things, the following for each subdivision:

- actual and trending Operating Margin (which is defined as home sale revenues less home cost of sales and all direct incremental costs associated with the home closing) for homes closed;
- estimated future undiscounted cash flows and Operating Margin;
- forecasted Operating Margin for homes in backlog;
- actual and trending net and gross home orders;
- base sales price and home sales incentive information for homes closed and homes in backlog;
- market information for each sub-market, including competition levels, home foreclosure levels, the size and style of homes currently being offered for sale and lot size; and
- known or probable events indicating that the carrying value may not be recoverable.

If events or circumstances indicate that the carrying value of our inventory may not be recoverable, assets are reviewed for impairment by comparing the undiscounted estimated future cash flows from an individual subdivision to its carrying value. If the undiscounted future cash flows are less than the subdivision s carrying value, the carrying value of the subdivision is written down to its then estimated fair value. We generally determine the estimated fair value of each subdivision by determining the present value of the estimated future cash flows at discount rates that are commensurate with the risk of the subdivision under evaluation. For the three months ended March 31, 2013 and 2012, we did not record any inventory impairment charges.

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

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

	March 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in thousands)			
5.375% Senior Notes due 2014	$ 249,668	$ 267,575	$ 249,621	$ 267,208
5.375% Senior Notes due 2015	249,905	269,450	249,895	268,867
5.625% Senior Notes due 2020	245,459	277,663	245,326	273,125
6.000% Senior Notes due 2043	250,000	246,338	-	-
Total	$ 995,032	$ 1,061,026	$ 744,842	$ 809,200

M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements

7. Inventories

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

	March 31, 2013	December 31, 2012
	(Dollars in thousands)	
Housing Completed or Under Construction:		
West	$ 202,247	$ 200,858
Mountain	176,350	183,522
East	143,064	128,569
Subtotal	521,661	512,949
Land and Land Under Development:		
West	283,845	230,344
Mountain	133,360	137,221
East	117,233	122,007
Subtotal	534,438	489,572
Total Inventories	$ 1,056,099	$ 1,002,521

In accordance with ASC 360, *Property, Plant, and Equipment* (ASC 360), homebuilding inventories are carried at cost unless events and circumstances indicate that the carrying value of the underlying subdivision may not be recoverable. We evaluate inventories for impairment at each quarter end. Please see *Inventories* in Note 6 for more detail on the methods and assumptions that were used to estimate the fair value of our inventories. Based on the impairment review, we did not record any inventory impairments during the three months ended March 31, 2013 or 2012.

8. Capitalization of Interest

We capitalize interest to inventories during the period of development in accordance with ASC Topic 835, *Interest* (ASC 835). Homebuilding interest capitalized as a cost of inventories is included in cost of sales as related units or lots are sold. To the extent our homebuilding debt exceeds our qualified assets as defined in ASC 835, we expense a portion of the interest incurred by us. Qualified homebuilding assets represent projects that are actively selling or under development. For each of the three months ended March 31, 2013 and 2012, we expensed $0.8 million of interest related to the portion of inventories that were deemed unqualified assets in accordance with ASC 835. The table set forth below summarizes homebuilding interest activity.

	Three Months Ended March 31,	
	2013	2012
	(Dollars in thousands)	
Homebuilding interest incurred	$ 14,339	$ 10,593
Less: Interest capitalized	(13,522)	(9,785)
Homebuilding interest expense	$ 817	$ 808
Interest capitalized, beginning of period	$ 69,143	$ 58,742
Interest capitalized during period	13,522	9,785
Less: Previously capitalized interest included in home cost of sales	(9,874)	(4,894)
Interest capitalized, end of period	$ 72,791	$ 63,633

M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements

9. Other Assets

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

	March 31, 2013	December 31, 2012
	(Dollars in thousands)	
Deferred marketing costs	$ 13,389	$ 13,874
Land option deposits	10,993	8,246
Deferred debt issuance costs, net	5,214	2,641
Prepaid expenses	4,280	5,575
Metro district bond securities (related party)	5,818	5,818
Goodwill	6,008	6,008
Other	6,572	2,615
Total	$ 52,274	$ 44,777

10. Homebuilding Accrued Liabilities and Financial Services Accounts Payable and Accrued Liabilities

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

	March 31, 2013	December 31, 2012
	(Dollars in thousands)	
Accrued executive deferred compensation	$ 29,635	$ 28,475
Warranty reserves	23,098	23,151
Accrued interest payable	13,932	13,698
Customer and escrow deposits	12,157	9,413
Accrued compensation and related expenses	11,828	16,864
Land development and home construction accruals	10,348	9,545
Other accrued liabilities	14,141	17,310
Total accrued liabilities	$ 115,139	$ 118,456

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

	March 31, 2013	December 31, 2012
	(Dollars in thousands)	
Insurance reserves	$ 48,949	$ 47,852
Other accrued liabilities	5,591	4,012
Total accounts payable and accrued liabilities	$ 54,540	$ 51,864

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Notes to Unaudited Consolidated Financial Statements

11. Warranty Accrual

We record expenses and warranty accruals for general and structural warranty claims, as well as reserves for known, unusual warranty-related expenditures. Management estimates the warranty accruals based on our trends in historical warranty payment levels and warranty payments for claims not considered to be normal and recurring. Warranty payments incurred for an individual house may differ from the related accrual established for the home at the time it was closed. The actual disbursements for warranty claims are evaluated in the aggregate. The table set forth below summarizes warranty accrual and payment activity for the three months ended March 31, 2013 and 2012. Adjustments in the three month periods ended March 31, 2013 and 2012 were not material to our operations. Furthermore, the impact of the change in our warranty expense provision rate from the first quarter of 2012 to the first quarter of 2013 did not materially affect our warranty expense or gross margin from home sales for the three months ended March 31, 2013.

	Three Months Ended March 31,	
	2013	2012
	(Dollars in thousands)	
Balance at beginning of period	$ 23,151	$ 25,525
Expense provisions	1,122	765
Cash payments	(1,475)	(1,214)
Adjustments	300	-
Balance at end of period	$ 23,098	$ 25,076

12. Insurance Reserves

We record expenses and liabilities for losses and loss adjustment expenses for claims associated with: (1) insurance policies issued by Allegiant and re-insurance agreements issued by StarAmerican; (2) self-insurance, including workers compensation; and (3) deductible amounts under our insurance policies. The establishment of the provisions for outstanding losses and loss adjustment expenses is based on actuarial or internally developed studies that include known facts and interpretations of circumstances, including our experience with similar cases and historical trends involving claim payment patterns, pending levels of unpaid claims, product mix or concentration, claim severity, frequency patterns such as those caused by accidents depending on the business conducted, and changing regulatory and legal environments.

The table set forth below summarizes the insurance reserve activity for the three months ended March 31, 2013 and 2012. The insurance reserve is included as a component of accrued liabilities in the Financial Services section of the accompanying consolidated balance sheets.

	Three Months Ended March 31, 2013	2012
	(Dollars in thousands)	
Balance at beginning of period	$ 47,852	$ 49,376
Expense provisions	1,527	766
Cash payments	(430)	(5,418)
Balance at end of period	$ 48,949	$ 44,724

In the ordinary course of business, we make payments from our insurance reserves to settle litigation claims arising primarily from our homebuilding activities. These payments are irregular in both their timing and their magnitude. As a result, the cash payments shown for the three months ended March 31, 2013 are not necessarily indicative of what future cash payments will be for subsequent periods. This is exemplified by the higher cash payments for the three months ended March 31, 2012 compared to the same period in 2013, which were driven by resolution of several significant covered claims in the first quarter of 2012. The increase in our expense provisions was driven by a higher number of homes delivered during the first quarter of 2013 when compared to the same period in 2012 in addition to a higher expense provision rate per home closed as the result of a recent actuarial study performed.

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13. Income Taxes

At the end of each interim period, we are required to estimate our annual effective tax rate for the fiscal year and use that rate to provide for income taxes for the current year-to-date reporting period. Due to the effects of the deferred tax valuation allowance and changes in unrecognized tax benefits, our effective tax rates in 2013 and 2012 are not meaningful as the income tax benefit is not directly correlated to the amount of pretax income or loss. The income tax expense of $0.1 million during the three months ended March 31, 2013 and the income tax benefit of $0.1 million during the three months ended March 31, 2012 were not material to our operations.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is recorded against a deferred tax asset if, based on the weight of available evidence, it is more-likely-than-not (a likelihood of more than 50%) that some portion, or all, of the deferred tax asset will not be realized. At March 31, 2013 and December 31, 2012, we had a full valuation allowance recorded against our net deferred tax asset. Future realization of our deferred tax assets ultimately depends upon the existence of sufficient taxable income in the carryforward periods under the tax laws. We will continue analyzing, in subsequent reporting periods, the positive and negative evidence in determining the expected realization of our deferred tax assets.

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

	March 31, 2013	December 31, 2012
Deferred tax assets:	(Dollars in thousands)	
Federal net operating loss carryforwards	$ 123,310	$ 129,695
State net operating loss carryforwards	48,902	49,551
Alternative minimum tax and other tax credit carryforwards	11,353	10,988
Stock-based compensation expense	28,978	29,196
Warranty, litigation and other reserves	14,610	14,556
Deferred compensation retirement plans	11,682	11,252
Asset impairment charges	11,441	14,080
Inventory, additional costs capitalized for tax purposes	4,022	3,930
Other, net	1,627	2,063
Total deferred tax assets	255,925	265,311
Valuation allowance	(238,795)	(248,306)
Total deferred tax assets, net of valuation allowance	17,130	17,005
Deferred tax liabilities:		
Property, equipment and other assets	5,714	5,753
Discount on notes receivable	4,204	4,204
Deferred revenue	2,974	3,796

Unrealized gain on marketable securities		2,853		1,863
Other, net		1,385		1,389
Total deferred tax liabilities		17,130		17,005
Net deferred tax asset	$	-	$	-

M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements

14. Senior Notes

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

		March 31, 2013		December 31, 2012
		(Dollars in thousands)		
5.375% Senior Notes due 2014	$	249,668	$	249,621
5.375% Senior Notes due 2015		249,905		249,895
5.625% Senior Notes due 2020		245,459		245,326
6.000% Senior Notes due 2043		250,000		-
Total	$	995,032	$	744,842

On January 10, 2013, we issued $250 million of 6% senior notes due 2043 (the 6% Notes). The 6% Notes, which pay interest semi-annually in arrears on January 15 and July 15 of each year, commencing July 15, 2013, are general unsecured obligations of MDC and rank equally and ratably with our other general unsecured and unsubordinated indebtedness. We received proceeds of $247.8 million, net of underwriting fees of $2.2 million. The proceeds of the offering are for general corporate purposes.

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

15. Stock Based Compensation

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

During the three months ended March 31, 2013, we recognized $2.0 million for option grants, compared to $1.1 million during the same period in the prior year. The increase in expense was primarily driven by the expense recorded for the performance-based awards (discussed below) in the first quarter of 2013 which was not recorded in the first quarter of 2012. We recognized $1.4 million for restricted stock awards during the three months ended March 31, 2013 compared to $1.5 million during the same periods in the prior year.

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

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

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Notes to Unaudited Consolidated Financial Statements

16. Commitments and Contingencies

Surety Bonds and Letters of Credit. We are required to obtain surety bonds and letters of credit in support of our obligations for land development and subdivision improvements, homeowner association dues, warranty work, contractor license fees and earnest money deposits. At March 31, 2013, we had issued and outstanding surety bonds and letters of credit totaling $60.5 million and $17.1 million, respectively, including $7.9 million in letters of credit issued by HomeAmerican. The estimated cost to complete obligations related to these bonds and letters of credit was approximately $19.0 million and $2.4 million, respectively. Among our letter of credit facilities are three committed revolving facilities, the terms of which provide that up to $65 million of letters of credit may be issued thereunder. In the event any such surety bonds or letters of credit issued by third parties are called, MDC could be obligated to reimburse the issuer of the bond or letter of credit. We believe that we were in compliance with the covenants in the letter of credit facilities at March 31, 2013.

Mortgage Loan Loss Reserves. In the normal course of business, we establish reserves for potential losses associated with HomeAmerican s sale of mortgage loans to third-parties. These reserves are created to address repurchase and indemnity claims by third-party purchasers of the mortgage loans, which claims arise primarily out of allegations of homebuyer fraud at the time of origination of the loan. These reserves are based upon, among other things: (1) pending claims received from third-party purchasers associated with previously sold mortgage loans; and (2) a current assessment of the potential exposure associated with future claims of fraud in mortgage loans originated in prior periods. Our mortgage loan reserves are reflected as a component of accrued liabilities in the Financial Services section of the accompanying consolidated balance sheets, and the associated expenses are included in Expenses in the Financial Services section of the accompanying consolidated statements of operations.

The following table summarizes the mortgage loan loss reserve activity for the three months ended March 31, 2013 and 2012.

	Three Months Ended March 31, 2013	2012
	(Dollars in thousands)	
Balance at beginning of period	$ 805	$ 442
Expense provisions	250	294
Cash payments	(86)	(97)
Balance at end of period	$ 969	$ 639

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

Lot Option Contracts. In the normal course of business, we enter into lot option purchase contracts (Option Contracts), generally through a deposit of cash or a letter of credit, for the right to purchase land or lots at a future point in time with predetermined terms. The use of such land option and other contracts generally allows us to reduce the risks associated with direct land ownership and development, reduces our capital and financial commitments and minimizes the amount of our land inventories on our consolidated balance sheets. Our obligation with respect to Option Contracts generally is limited to forfeiture of the related deposits. At March 31, 2013, we had cash deposits and letters of credit totaling $7.8 million and $4.2 million, respectively, at risk associated with the option to purchase 2,284 lots.

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17. Derivative Financial Instruments

We utilize certain derivative instruments in the normal course of business, which primarily include commitments to originate mortgage loans (interest rate lock commitments or locked pipeline) and forward sales of mortgage-backed securities commitments, both of which typically are short-term in nature. Forward sales securities commitments and private investor sales commitments are utilized to hedge changes in fair value of mortgage loan inventory and commitments to originate mortgage loans. At March 31, 2013, we had $73.6 million in interest rate lock commitments and $64.5 million in forward sales of mortgage-backed securities.

We record our mortgage loans held-for-sale at fair value to achieve matching of the changes in the fair value of our derivative instruments with the changes in fair values of hedged loans, without having to designate our derivatives as hedging instruments. For forward sales commitments, as well as commitments to originate mortgage loans that are still outstanding at the end of a reporting period, we record the fair value of the derivatives in Financial Services revenues in the consolidated statements of operations with an offset to Financial Services prepaid expenses and other assets or accrued liabilities in the accompanying consolidated balance sheets, depending on the nature of the change.

18. Mortgage Repurchase Facility

Mortgage Lending. HomeAmerican has a Master Repurchase Agreement (the Mortgage Repurchase Facility) with U.S. Bank National Association (USBNA). This agreement was amended on September 21, 2012 and extended until September 20, 2013. The Mortgage Repurchase Facility provides liquidity to HomeAmerican by providing for the sale of eligible mortgage loans to USBNA with an agreement by HomeAmerican to repurchase the mortgage loans at a future date. Until such mortgage loans are transferred back to HomeAmerican, the documents relating to such loans are held by USBNA, as custodian, pursuant to the Custody Agreement (Custody Agreement), dated as of November 12, 2008, by and between HomeAmerican and USBNA. The Mortgage Repurchase Facility, which had a temporary increase in commitment up to $80 million through January 31, 2013, had a maximum aggregate commitment of $50 million as of March 31, 2013. At March 31, 2013 and December 31, 2012, we had $41.5 million and $76.3 million, respectively, of mortgage loans that we were obligated to repurchase under our Mortgage Repurchase Facility. Mortgage loans that we are obligated to repurchase under the Mortgage Repurchase Facility are accounted for as a debt financing arrangement and are reported as mortgage repurchase facility on the consolidated balance sheets. Advances under the Mortgage Repurchase Facility carry a Pricing Rate equal to the greater of (i) the LIBOR Rate (as defined in the Mortgage Repurchase Facility) plus 2.5%, or (ii) 3.25%. The Mortgage Repurchase Facility contains various representations, warranties and affirmative and negative covenants customary for agreements of this type. The negative covenants include, among others, (i) an Adjusted Tangible Net Worth requirement, (ii) a minimum Adjusted Tangible Net Worth Ratio, (iii) an Adjusted Net Income requirement, and (iv) a minimum Liquidity requirement. The foregoing terms are defined in the Mortgage Repurchase Facility. We believe we were in compliance with the representations, warranties and covenants included in the Mortgage Repurchase Facility as of March 31, 2013.

19. Supplemental Guarantor Information

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

M.D.C. Land Corporation
RAH of Florida, Inc.
Richmond American Construction, Inc.
Richmond American Homes of Arizona, Inc.
Richmond American Homes of Colorado, Inc.
Richmond American Homes of Delaware, Inc.
Richmond American Homes of Florida, LP
Richmond American Homes of Illinois, Inc.
Richmond American Homes of Maryland, Inc.
Richmond American Homes of Nevada, Inc.
Richmond American Homes of New Jersey, Inc.
Richmond American Homes of Pennsylvania, Inc.
Richmond American Homes of Utah, Inc.
Richmond American Homes of Virginia, Inc.
Richmond American Homes of Washington, Inc.

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

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

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

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

Following is a reconciliation of the amounts previously reported to the reclassified amounts as stated in the following components of the Supplemental Condensed Combining Statements of Cash Flows for the three months ended March 31, 2012.

MDC Column for Three Months Ended March 31, 2012	As Previously Reported	Reclassify the non-cash equity income (loss) of subsidiaries	As Reclassified

	(Dollars in thousands)		
Net Cash provided by (used in) operating activities	$ (6,281)	$ (7,705)	$ (13,986)
Payments from (advances to) subsidiaries	$ (32,908)	$ 7,705	$ (25,203)
Net cash provided by (used in) financing activities	$ (44,902)	$ 7,705	$ (37,197)
Net increase (decrease) in cash and cash equivalents	$ (53,568)	$ -	$ (53,568)

M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements

Supplemental Condensed Combining Balance Sheets

	March 31, 2013				
	MDC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
ASSETS			(Dollars in thousands)		
Homebuilding:					
Cash and cash equivalents	$ 178,928	$ 4,308	$ -	$ -	$ 183,236
Marketable securities	626,707	-	-	-	626,707
Restricted cash	-	2,526	-	-	2,526
Trade and other receivables	9,015	25,057	-	(2,187)	31,885
Inventories:					
Housing completed or under construction	-	521,661	-	-	521,661
Land and land under development	-	534,438	-	-	534,438
Intercompany receivables	908,332	2,555	-	(910,887)	-
Investment in subsidiaries	212,938	-	-	(212,938)	-
Other assets	42,349	39,524	-	3,457	85,330
Total homebuilding assets	1,978,269	4,308	-	-	1,985,783
Financial Services:					
Cash and cash equivalents	-	-	32,444	-	32,444
Marketable securities	-	-	33,292	-	33,292
Trade receivables	-	-	1,399	-	1,399
Intercompany receivables	-	-	4,203	(4,203)	-
Mortgage loans held-for-sale, net	-	-	86,429	-	86,429
Other assets	-	-	6,444	(3,457)	2,987
Total financial services assets	-	-	164,211	(7,660)	156,551
Total Assets	1,978,269	1,130,069	164,211	(1,130,215)	2,142,334
LIABILITIES AND EQUITY					
Homebuilding:					
Accounts payable	$ -	$ 21,712	$ -	$ -	$ 21,712
Accrued liabilities	62,036	50,641	8	2,454	115,139
Advances and notes payable to parent and subsidiaries	6,758	879,343	45	(886,146)	-

Senior notes, net	995,032	-	-	-	995,032
Total homebuilding liabilities	1,063,826	951,696	53	(883,692)	1,131,883
Financial Services:					
Accounts payable and other liabilities	-	-	59,181	(4,641)	54,540
Advances and notes payable to parent and subsidiaries	-	-	28,944	(28,944)	-
Mortgage repurchase facility	-	-	41,468	-	41,468
Total financial services liabilities	-	-	129,593	(33,585)	96,008
Total Liabilities	1,063,826	951,696	129,646	(917,277)	1,227,891
Equity:					
Total Stockholder s Equity	914,443	178,373	34,565	(212,938)	914,443
Total Liabilities and Stockholders Equity	$ 1,978,269	$ 1,130,069	$ 164,211	$ (1,130,215)	$ 2,142,334

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Supplemental Condensed Combining Balance Sheets

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

Total homebuilding liabilities	822,796	872,173	66,446	(825,062)	936,353
Financial Services:					
Accounts payable and other liabilities	-	-	51,864	-	51,864
Advances and notes payable to parent and subsidiaries	-	-	1,737	(1,737)	-
Mortgage repurchase facility	-	-	76,327	-	76,327
Total financial services liabilities	-	-	129,928	(1,737)	128,191
Total Liabilities	822,796	872,173	196,374	(826,799)	1,064,544
Equity:					
Total Stockholder s Equity	880,897	120,363	78,102	(198,465)	880,897
Total Liabilities and Stockholders Equity	$ 1,703,693	$ 992,536	$ 274,476	$ (1,025,264)	$ 1,945,441

M.D.C. HOLDINGS, INC.

Notes to Unaudited Consolidated Financial Statements

Supplemental Condensed Combining Statements of Operations and Comprehensive Income

	Three Months Ended March 31, 2013				
	MDC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
Homebuilding:	(Dollars in thousands)				
Revenues	$ -	$ 332,996	$ -	$ (1,248)	$ 331,748
Cost of Sales	-	(275,324)	-	1,248	(274,076)
Inventory impairments	-	-	-	-	-
Gross margin	-	57,672	-	-	57,672
Selling, general, and administrative expenses	(15,579)	(32,546)	-	(76)	(48,201)
Equity income of subsidiaries	29,829	-	-	(29,829)	-
Interest income	(817)	-	-	-	(817)
Interest expense	6,179	3	-	-	6,182
Other income (expense), net	11	-	-	-	11
Homebuilding pretax income	19,623	25,129	-	(29,905)	14,847
Financial Services:					
Financial services pretax income	-	-	7,663	76	7,739
Income before income taxes	19,623	25,129	7,663	(29,829)	22,586
(Provision) benefit for income taxes	2,893	(78)	(2,885)	-	(70)
Net income	$ 22,516	$ 25,051	$ 4,778	$ (29,829)	$ 22,516
Other comprehensive income (loss)					
Unrealized gain (loss) related to available for sale securities	2,631	-	(96)	-	2,535
Comprehensive income	$ 25,147	$ 25,051	$ 4,682	$ (29,829)	$ 25,051

	Three Months Ended March 31, 2012
	MDC

		Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
Homebuilding:		**(Dollars in thousands)**			
Revenues	$ -	$ 175,532	$ 12,006	$ (1,270)	$ 186,268
Cost of Sales	-	(151,074)	(10,340)	1,270	(160,144)
Inventory impairments	-	-	-	-	-
Gross margin	-	24,458	1,666	-	26,124
Selling, general, and administrative expenses	(12,308)	(21,993)	177	-	(34,124)
Equity income of subsidiaries	7,705	-	-	(7,705)	-
Interest income	(778)	(30)	-	-	(808)
Interest expense	5,910	3	-	-	5,913
Other income (expense), net	18	117	23	-	158
Homebuilding pretax income (loss)	547	2,555	1,866	(7,705)	(2,737)
Financial Services:					
Financial services pretax income	-	-	4,862	-	4,862
Income before income taxes	547	2,555	6,728	(7,705)	2,125
(Provision) benefit for income taxes	1,718	168	(1,746)	-	140
Net income	$ 2,265	$ 2,723	$ 4,982	$ (7,705)	$ 2,265
Other comprehensive income					
Unrealized gain related to available for sale securities	6,439	-	109	-	6,548
Comprehensive income	$ 8,704	$ 2,723	$ 5,091	$ (7,705)	$ 8,813

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Notes to Unaudited Consolidated Financial Statements

Supplemental Condensed Combining Statements of Cash Flows

	Three Months Ended March 31, 2013				
	MDC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
	(Dollars in thousands)				
Net cash provided by (used in) operating activities	$ (7,369)	$ (151,915)	$ 103,866	$ -	$ (55,418)
Net cash used in investing activities	(105,589)	(571)	(909)	-	(107,069)
Financing activities:					
Payments from (advances to) subsidiaries	(86,949)	153,486	(66,537)	-	-
Mortgage repurchase facility	-	-	(34,859)	-	(34,859)
Proceeds from issuance of senior notes	247,813	-	-	-	247,813
Proceeds from the exercise of stock options	5,118	-	-	-	5,118
Net cash provided by (used in) financing activities	165,982	153,486	(101,396)	-	218,072
Net increase in cash and cash equivalents	53,024	1,000	1,561	-	55,585
Cash and cash equivalents:					
Beginning of period	125,904	3,308	30,883	-	160,095
End of period	$ 178,928	$ 4,308	$ 32,444	$ -	$ 215,680

	Three Months Ended March 31, 2012				
	MDC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated MDC
	(Dollars in thousands)				
Net cash provided by (used in) operating activities	$ (13,986)	$ (25,595)	$ 20,768	$ -	$ (18,813)
Net cash used in investing activities	(2,385)	(147)	(1,421)	-	(3,953)
Financing activities:					
Payments from (advances to) subsidiaries	(25,203)	26,234	(1,031)	-	-
Mortgage repurchase facility	-	-	(22,862)	-	(22,862)
Dividend payments	(11,994)	-	-	-	(11,994)

Net cash provided by (used in) financing activities	(37,197)	26,234	(23,893)	-	(34,856)
Net increase (decrease) in cash and cash equivalents	(53,568)	492	(4,546)	-	(57,622)
Cash and cash equivalents:					
Beginning of period	313,566	2,771	27,024	-	343,361
End of period	$ 259,998	$ 3,263	$ 22,478	$ -	$ 285,739

ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

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

M.D.C. HOLDINGS, INC.

Selected Financial Information (unaudited)