MDC HOLDINGS INC
Form 10-Q
October 30, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended September 30, 2014**

**OR**

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

**Commission File No. 1-8951**

**M.D.C. HOLDINGS, INC.**

**(Exact name of Registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **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 (Zip code)**
**(Address of principal executive offices)**

**(303) 773-1100**

**(Registrant's telephone number, including area code)**

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

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

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

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

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

**As of October 25, 2014, 48,816,639 shares of M.D.C. Holdings, Inc. common stock were outstanding.**

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

**FORM 10-Q**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

**INDEX**

**ITEM 1. Unaudited Consolidated Financial Statements**

**M.D.C. HOLDINGS, INC.**

**Consolidated Balance Sheets**

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

| | | |
|---|---|---|
| Mortgage repurchase facility | 31,782 | 63,074 |
| Total financial services liabilities | 88,052 | 118,713 |
| Total Liabilities | 1,362,640 | 1,382,200 |
| **Stockholders' Equity** | | |
| Preferred stock, $0.01 par value; 25,000,000 shares authorized; none issued or outstanding | - | - |
| Common stock, $0.01 par value; 250,000,000 shares authorized; 48,816,639 and 48,788,887 issued and outstanding at September 30, 2014 and December 31, 2013, respectively | 488 | 488 |
| Additional paid-in-capital | 912,730 | 908,090 |
| Retained earnings | 304,985 | 293,096 |
| Accumulated other comprehensive income | 7,372 | 11,575 |
| Total Stockholders' Equity | 1,225,575 | 1,213,249 |
| Total Liabilities and Stockholders' Equity | $2,588,215 | $2,595,449 |

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

**M.D.C. HOLDINGS, INC.**

**Consolidated Statements of Operations and Comprehensive Income**

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

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

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

**M.D.C. HOLDINGS, INC.**

**Consolidated Statements of Cash Flows**

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

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

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

**M.D.C. HOLDINGS, INC.**

**Notes to Unaudited Consolidated Financial Statements**

## 1. Basis of Presentation

The Unaudited Consolidated Financial Statements of M.D.C. Holdings, Inc. ("MDC," “the Company," “we,” “us,” or “our” which refers to M.D.C. Holdings, Inc. and its subsidiaries) have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all information and footnotes required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements. These statements reflect all normal and recurring adjustments which, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows of MDC at September 30, 2014 and for all periods presented. These statements should be read in conjunction with MDC’s Consolidated Financial Statements and Notes thereto included in MDC’s Annual Report on Form 10-K for the year ended December 31, 2013. Certain prior year amounts have been reclassified to conform to the current year’s presentation.

## 2. Recently Issued Accounting Standards

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

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

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

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

## 3. Segment Reporting

Our operating segments are defined as a component of an enterprise for which discrete financial information is available and is reviewed regularly by the chief operating decision-maker, or decision-making group, to evaluate performance and make operating decisions. We have identified our chief operating decision-maker as two key executives— our Chief Executive Officer and Chief Operating Officer.

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

West (Arizona, California, Nevada and Washington)
Mountain (Colorado and Utah)
East (Virginia, Florida and Maryland, which includes Pennsylvania, Delaware and New Jersey)

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

**M.D.C. HOLDINGS, INC.**

**Notes to Unaudited Consolidated Financial Statements**

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

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

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

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

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

**M.D.C. HOLDINGS, INC.**

**Notes to Unaudited Consolidated Financial Statements**

The table set forth below summarizes total assets for our homebuilding and financial services operations. The assets in our West, Mountain and East segments consist primarily of inventory while the assets in our Corporate segment consist primarily of cash and cash equivalents, marketable securities and our deferred tax asset. The assets in our financial services segment consist mostly of cash and cash equivalents, marketable securities and mortgage loans held-for-sale.

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

## 4. Earnings Per Share

A company that has participating securities (for example, holders of unvested restricted stock that has nonforfeitable dividend rights) is required to utilize the two-class method to calculate earnings per share ("EPS") unless the treasury stock method results in lower EPS. The two-class method is an allocation of earnings/(loss) between the holders of common stock and a company's participating security holders. Under the two-class method, earnings/(loss) for the reporting period are allocated between common shareholders and other security holders based on their respective rights to receive distributed earnings (i.e., dividends) and undistributed earnings (i.e., net income/(loss)). Currently, we have one class of security and we have participating security holders consisting of shareholders of unvested restricted stock. Basic EPS is calculated by dividing income or loss attributable to common stockholders by the weighted average number of shares of common stock outstanding. To calculate diluted EPS, basic EPS is further adjusted to include the effect of potential dilutive stock options outstanding. The following table shows basic and diluted EPS calculations:

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

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

**M.D.C. HOLDINGS, INC.**

**Notes to Unaudited Consolidated Financial Statements**

## 5. Accumulated Other Comprehensive Income

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (Dollars in thousands) | | | |
| Unrealized gains (losses) on available-for-sale marketable securities [1] : | | | | |
| Beginning balance | $5,346 | $884 | $7,655 | $4,838 |
| Other comprehensive income (loss) before reclassifications | (4,836) | 1,766 | (3,236) | (1,195) |
| Amounts reclassified from AOCI [2] | 1,862 | 194 | (2,047) | (799 ) |
| Ending balance | $2,372 | $2,844 | $2,372 | $2,844 |
| | | | | |
| Unrealized gains on available-for-sale metropolitan district bond securities [1] : | | | | |
| Beginning balance | $4,510 | $4,494 | $3,920 | $- |
| Other comprehensive income before reclassifications | 490 | - | 1,080 | 4,494 |
| Amounts reclassified from AOCI | - | - | - | - |
| Ending balance | $5,000 | $4,494 | $5,000 | $4,494 |
| | | | | |
| Total ending AOCI | $7,372 | $7,338 | $7,372 | $7,338 |

1. All amounts net-of-tax.
2. See separate table below for details about these reclassifications which include gains or losses on sales of available-for-sale securities sold as well as any other-than-temporary impairments taken on available-for-sale securities during the period.

The following table sets forth the activity related to reclassifications out of accumulated other comprehensive income (loss) related to available-for-sale securities:

| Affected Line Item in the Statements of Operations | Three Months Ended September 30, 2014 | 2013 | Nine Months Ended September 30, 2014 | 2013 |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| Homebuilding interest and other income | $1,167 | $(311) | $7,528 | $560 |
| Other-than-temporary impairment of marketable securities | (4,293) | - | (4,293) | - |
| Financial services interest and other income | 99 | (4) | 94 | 118 |
| Income before income taxes | (3,027) | (315) | 3,329 | 678 |
| Benefit from (provision for) income taxes | 1,165 | 121 | (1,282) | 121 |
| Net income | $(1,862) | $(194) | $2,047 | $799 |

**M.D.C. HOLDINGS, INC.**

**Notes to Unaudited Consolidated Financial Statements**

## 6. Fair Value Measurements

Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements* ("ASC 820"), 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 September 30, 2014 | December 31, 2013 |
|---|---|---|---|
| | | (Dollars in thousands) | |
| Marketable securities (available-for-sale) | | | |
| Equity securities | Level 1 | $426,453 | $389,323 |
| Debt securities - maturity less than 1 year | Level 2 | 2,060 | 72,577 |
| Debt securities - maturity 1 to 5 years | Level 2 | 10,167 | 106,566 |
| Debt securities - maturity greater than 5 years | Level 2 | 15,959 | 19,601 |
| Total available-for-sale securities | | $454,639 | $588,067 |
| Mortgage loans held-for-sale, net | Level 2 | $58,132 | $92,578 |
| Metropolitan district bond securities (related party) (available-for-sale) | Level 3 | $15,379 | $12,729 |

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

*Cash and cash equivalents, restricted cash, trade and other receivables, inventories, prepaid and other assets, accounts payable, and accrued liabilities.* Fair value approximates carrying value.

*Marketable Securities*. We have marketable debt and equity securities. Our equity securities consist primarily of holdings in mutual fund securities, which invest mostly in debt securities. The remaining equity securities in our investment portfolio are holdings in corporate equities. Our debt securities consist primarily of fixed and floating rate interest earning debt securities, which may include, among others, United States government and government agency debt and corporate debt. We measure the fair value of our debt securities using a third party pricing service that either provides quoted market prices in active markets for identical or similar securities, which are level 1 inputs, or uses observable inputs for their pricing, which are level 2 inputs. As of September 30, 2014 and December 31, 2013, 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 AOCI.

Each quarter we assess all of our securities in an unrealized loss position for potential other-than-temporary impairment ("OTTI"). Our assessment includes a consideration of many factors, both qualitative and quantitative, including the amount of the unrealized loss, the period of time the security has been in a loss position, the financial condition of the issuer and whether we have the intent and ability to hold the securities, among other factors. During the three and nine months ended September 30, 2014, we recorded a pre-tax OTTI of $4.3 million for certain of our mutual funds that were in a loss position as of quarter end. The OTTI is included in other-than-temporary impairment of marketable securities in the homebuilding section of our consolidated statements of operations.

**M.D.C. HOLDINGS, INC.**

**Notes to Unaudited Consolidated Financial Statements**

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

| | September 30, 2014 | | | |
|---|---|---|---|---|
| | Amortized Cost | OTTI | Net Amortized Cost | Fair Value |
| | (Dollars in thousands) | | | |
| **Homebuilding:** | | | | |
| Equity securities | $417,688 | $(4,293) | 413,395 | $417,242 |
| Debt securities | 20,426 | - | 20,426 | 20,202 |
| Total homebuilding available-for-sale marketable securities | $438,114 | $(4,293) | $ 433,821 | $437,444 |
| **Financial Services:** | | | | |
| Equity securities | $9,028 | - | 9,028 | $9,211 |
| Debt securities | 7,934 | - | 7,934 | 7,984 |
| Total financial services available-for-sale marketable securities | $16,962 | $- | $ 16,962 | $17,195 |
| Total available-for-sale marketable securities | $455,076 | $(4,293) | $ 450,783 | $454,639 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Amortized Cost | OTTI | Net Amortized Cost | Fair Value |
| | (Dollars in thousands) | | | |
| **Homebuilding:** | | | | |
| Equity securities | $375,142 | $ - | $ 375,142 | $385,303 |
| Debt securities | 181,635 | - | 181,635 | 183,718 |
| Total homebuilding available-for-sale marketable securities | $556,777 | $ - | $ 556,777 | $569,021 |
| **Financial Services:** | | | | |
| Equity securities | $4,000 | $ - | $ 4,000 | $4,020 |
| Debt securities | 14,721 | - | 14,721 | 15,026 |
| Total financial services available-for-sale marketable securities | $18,721 | $ - | $ 18,721 | $19,046 |
| Total available-for-sale marketable securities | $575,498 | $ - | $ 575,498 | $588,067 |

During the three and nine months ended September 30, 2014, we recorded a pre-tax OTTI of $4.3 million for certain of our mutual funds that were in a loss position as of quarter end. The OTTI is included in other-than-temporary impairment of marketable securities in the homebuilding section of our consolidated statements of operations.

As of September 30, 2014 and December 31, 2013, our marketable securities were in a net unrealized loss position totaling $0.4 million and a net unrealized gain position totaling $12.6 million, respectively. Our marketable securities that were in unrealized loss positions, excluding those that were impaired as part of the OTTI, aggregated to unrealized losses of $2.2 million and $1.1 million as of September 30, 2014 and December 31, 2013, respectively. The table below sets forth the debt and equity securities, for which an OTTI had not been recognized, that were in an aggregate loss position in AOCI as of September 30, 2014 and December 31, 2013. We do not believe that the aggregate unrealized loss related to our debt or equity securities as of September 30, 2014 is material to our operations.

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| | September 30, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| | Number of Securities in Loss Position | Aggregate Loss Position | Aggregate Fair Value of Securities in a Loss Position | Number of Securities in Loss Position | Aggregate Loss Position | Aggregate Fair Value of Securities in a Loss Position |
| Type of Investment | (Dollars in thousands) | | | | | |
| Debt | 82 | $ (294) | $ 17,758 | 72 | $ (430) | $ 46,440 |
| Equity | 9 | (1,901) | 76,720 | 7 | (713) | 14,174 |
| Total | 91 | $ (2,195) | $ 94,478 | 79 | $ (1,143) | $ 60,614 |

The following tables set forth gross realized gains and losses from the sale of available-for-sale marketable securities, which were included in either interest and other income in the homebuilding section or interest and other income in the financial services section of our consolidated statements of operations.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (Dollars in thousands) | | | |
| Gross realized gains on sales of available-for-sale securities | | | | |
| Equity securities | $979 | $498 | $6,496 | $714 |
| Debt securities | 466 | 116 | 2,386 | 376 |
| Total | $1,445 | $614 | $8,882 | $1,090 |
| | | | | |
| Gross realized losses on sales of available-for-sale securities | | | | |
| Equity securities | $(92) | $- | $(801) | $- |
| Debt securities | (87) | (293) | (459) | (1,518) |
| Total | $(179) | $(293) | $(1,260) | $(1,518) |
| | | | | |
| Net realized gain (loss) on sales of available-for-sale securities | $1,266 | $321 | $7,622 | $(428) |

*Mortgage Loans Held-for-Sale, Net.* As of September 30, 2014, 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 September 30, 2014 and December 31, 2013, we had $52.1 million and $66.1 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 September 30, 2014 and December 31, 2013, we had $6.0 million and $26.5 million, respectively, of mortgage loans held-for-sale that were not under commitments to sell. The fair value for those loans was primarily based upon the estimated market price received from an outside party, which is a Level 2 fair value input.

*Metropolitan District Bond Securities (Related Party).* The Metropolitan district bond securities (the “Metro Bonds”) are included in the homebuilding section of our accompanying consolidated balance sheets. We acquired the Metro Bonds from a quasi-municipal corporation in the state of Colorado (the “Metro District”), which was formed to help fund and maintain the infrastructure associated with a master-planned community being developed by our Company. Cash flows received by the Company from these securities reflect principal and interest payments from the Metro District that are supported by an annual levy on the taxable value of real estate and personal property within the Metro District’s boundaries and a one-time fee assessed on permits obtained by MDC in the Metro District. The stated year of maturity for the Metro Bonds is 2037. However, if the unpaid principal and all accrued interest are not paid off by the year 2037, the Company will continue to receive principal and interest payments in perpetuity until the unpaid principal and accrued interest is paid in full. Since 2007 and through the first quarter of 2013, we accounted for these securities under the cost recovery method and they were not carried at fair value in accordance with ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (“ASC 310-30”).

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In the second quarter of 2013, we determined that these securities no longer were required to be accounted for under the cost recovery method due to an increase in the number of new homes delivered in the community coupled with improvements in property values within the Metro District. In accordance with ASC 310-30, we will adjust the bond principal balance on a prospective basis using an interest accretion model that utilizes future cash flows expected to be collected. Furthermore, as this investment is accounted for as an available-for-sale asset, we will update its fair value on a quarterly basis, with the adjustment being recorded through AOCI. The fair value is based upon a discounted future cash flow model, which uses Level 3 inputs. The two primary unobservable inputs used in our discounted cash flow model are the forecasted number of homes to be closed, as they drive any increases to the tax base for the Metro District, and the discount rate. The table below provides quantitative data, as of September 30, 2014, regarding each unobservable input and the sensitivity of fair value to potential changes in those unobservable inputs.

| | Quantitative Data | | Sensitivity Analysis | |
|---|---|---|---|---|
| Unobservable Input | Range | Weighted Average | Movement in Fair Value from Increase in Input | Movement in Fair Value from Decrease in Input |
| Number of homes closed per year | 0 to 132 | 93 | Increase | Decrease |
| Discount rate | 6% to 16 % | 11.5 % | Decrease | Increase |

The table set forth below summarizes the activity for our Metro Bonds:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (Dollars in thousands) | | | |
| Balance at beginning of period | $14,291 | $13,835 | $12,729 | $5,818 |
| Increase in fair value (recorded in other comprehensive income) | 798 | - | 1,757 | 7,354 |
| Change due to accretion of principal | 290 | 332 | 893 | 995 |
| Cash receipts | - | - | - | - |
| Balance at end of period | $15,379 | $14,167 | $15,379 | $14,167 |

*Mortgage Repurchase Facility.* The debt associated with our mortgage repurchase facility (see Note 19 for further discussion) is at floating rates or at fixed rates that approximate current market rates and have relatively short-term maturities, generally within 30 days. The fair value approximates carrying value and is based on Level 2 inputs.

*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.

| | September 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (Dollars in thousands) | | | |
| 5 % Senior Notes due December 2014, net | $- | $- | $249,814 | $258,750 |
| 5 % Senior Notes due July 2015, net | 249,967 | 258,125 | 249,935 | 262,562 |
| 5 % Senior Notes due February 2020, net | 246,302 | 258,125 | 245,871 | 259,688 |
| 5½% Senior Notes due January 2024, net | 250,000 | 246,250 | - | - |
| 6% Senior Notes due January 2043 | 350,000 | 317,188 | 350,000 | 305,083 |
| Total | $1,096,269 | $1,079,688 | $1,095,620 | $1,086,083 |

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## 7. Inventories

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

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| | (Dollars in thousands) | |
| Housing Completed or Under Construction: | | |
| West | $411,524 | $270,778 |
| Mountain | 238,187 | 194,101 |
| East | 186,809 | 171,821 |
| Subtotal | 836,520 | 636,700 |
| Land and Land Under Development: | | |
| West | 459,218 | 459,512 |
| Mountain | 261,493 | 211,526 |
| East | 133,966 | 103,923 |
| Subtotal | 854,677 | 774,961 |
| Total Inventories | $1,691,197 | $1,411,661 |

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

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

- actual and trending “Operating Margin” (which is defined as home sale revenues less home cost of sales and all direct incremental costs associated with the home closing, including sales commissions) for homes closed;
- estimated future undiscounted cash flows and Operating Margin;
- forecasted Operating Margin for homes in backlog;
- actual and trending net and gross home orders;
- base sales price and home sales incentive information for homes closed, homes in backlog and homes available for sale;
- 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. We recognized no inventory impairments during the three months ended September 30, 2014. For the nine months ended September 30, 2014, we recorded $0.9 million of inventory impairment charges related to two projects in our East segment. We recognized $0.4 million in impairments for the three and nine months ended September 30, 2013.

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## 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 interest incurred. Qualified homebuilding assets consist of all lots and homes, excluding finished unsold homes or finished models, within projects that are actively selling or under development. The table set forth below summarizes homebuilding interest activity.

The homebuilding interest expensed in the table below relates to the portion of interest incurred where our homebuilding debt exceeded our qualified inventory for such periods in accordance with ASC 835.

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, | | September 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| | (Dollars in thousands) | | | |
| Homebuilding interest incurred | $16,499 | $15,852 | $52,211 | $45,536 |
| Less: Interest capitalized | (16,499) | (15,852) | (51,526) | (43,810) |
| Homebuilding interest expensed | $- | $- | $685 | $1,726 |
| | | | | |
| Interest capitalized, beginning of period | $80,936 | $74,547 | $74,155 | $69,143 |
| Plus: Interest capitalized during period | 16,499 | 15,852 | 51,526 | 43,810 |
| Less: Previously capitalized interest included in home cost of sales | (14,966) | (15,567) | (43,212) | (38,121) |
| Interest capitalized, end of period | $82,469 | $74,832 | $82,469 | $74,832 |

## 9. Homebuilding Prepaid Expenses and Other Assets

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

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| | (Dollars in thousands) | |
| Land option deposits | $16,593 | $ 15,221 |
| Deferred marketing costs | 27,598 | 15,830 |
| Prepaid expenses | 5,967 | 4,349 |
| Goodwill | 6,008 | 6,008 |
| Deferred debt issuance costs, net | 12,111 | 11,527 |
| Other | 533 | 590 |
| Total | $68,810 | $ 53,525 |

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**Notes to Unaudited Consolidated Financial Statements**

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

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

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| | (Dollars in thousands) | |
| Accrued compensation and related expenses | $21,484 | $35,990 |
| Accrued executive deferred compensation | 30,796 | 30,796 |
| Accrued interest | 14,391 | 24,198 |
| Warranty reserves | 19,101 | 22,238 |
| Customer and escrow deposits | 17,944 | 10,759 |
| Land development and home construction accruals | 7,422 | 9,592 |
| Other accrued liabilities | 17,254 | 19,248 |
| Total accrued liabilities | $128,392 | $152,821 |

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

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| | (Dollars in thousands) | |
| Insurance reserves | $49,469 | $49,637 |
| Accounts payable and other accrued liabilities | 6,801 | 6,002 |
| Total accounts payable and accrued liabilities | $56,270 | $55,639 |

## 11. Warranty Reserves

Our homes are sold with limited third-party warranties. We record accruals for general and structural warranty claims, as well as accruals for known, unusual warranty-related expenditures. Warranty accruals are recorded based upon historical payment experience in an amount estimated to be adequate to cover expected costs of materials and outside labor during warranty periods. The determination of the warranty accrual rate for closed homes and the evaluation of our warranty reserve balance at period end are based on an internally developed analysis that includes known facts and interpretations of circumstances, including, among other things, our trends in historical warranty payment levels and warranty payments for claims not considered to be normal and recurring.

Our warranty reserves are included in accrued liabilities in the homebuilding section of our consolidated balance sheets and adjustments to our warranty reserves are recorded as an increase or reduction to home cost of sales in the homebuilding section of our consolidated statements of operations.

The table set forth below summarizes accrual, adjustment and payment activity related to our warranty reserve for the three and nine months ended September 30, 2014 and 2013. As a result of favorable warranty payment experience relative to our estimates at the time of home closing, we reduced our warranty reserve by $0.5 million and $2.6 million for the three and nine months ended September 30, 2014, respectively. We had no adjustments during the three months ended September 30, 2013 and a $0.3 million increase to our warranty reserve for the nine months ended September 30, 2013.

The impact of the change in our warranty accrual rates from the three months ended September 30, 2014, as compared to three months ended September 30, 2013, and the nine months ended September 30, 2014, as compared to nine months ended September 30, 2013, did not materially affect our warranty expense or gross margin from home sales for the three and nine months ended September 30, 2014.

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| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (Dollars in thousands) | | | |
| Balance at beginning of period | $20,178 | $22,725 | $22,238 | $23,151 |
| Expense provisions | 1,206 | 1,367 | 3,363 | 3,643 |
| Cash payments | (1,758 ) | (1,649 ) | (3,900 ) | (4,651 ) |
| Adjustments | (525 ) | - | (2,600 ) | 300 |
| Balance at end of period | $19,101 | $22,443 | $19,101 | $22,443 |

## 12. Insurance Reserves

The establishment of reserves for estimated losses associated with insurance policies issued by Allegiant and re-insurance agreements issued by StarAmerican are based on actuarially 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 depending on the business conducted, and changing regulatory and legal environments.

The table set forth below summarizes the insurance reserve activity for the three and nine months ended September 30, 2014 and 2013. 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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (Dollars in thousands) | | | |
| Balance at beginning of period | $49,363 | $47,834 | $49,637 | $47,852 |
| Expense provisions | 1,530 | 1,885 | 4,577 | 5,187 |
| Cash payments, net of recoveries | (1,424 ) | (557 ) | (4,745 ) | (3,877 ) |
| Balance at end of period | $49,469 | $49,162 | $49,469 | $49,162 |

In the ordinary course of business, we make payments from our insurance reserves to settle litigation claims arising primarily from our homebuilding activities. These payments are irregular in both their timing and their magnitude. As a result, the cash payments, net of recoveries shown for the three and nine months ended September 30, 2014 and 2013 are not necessarily indicative of what future cash payments will be for subsequent periods.

**13. Deferred Compensation Retirement Plans**

Effective August 1, 2008, the Company entered into amended and restated employment agreements (as amended on March 8, 2012, the “Employment Agreements”) with Larry A. Mizel, Chairman of the Board and Chief Executive Officer, and David D. Mandarich, President and Chief Operating Officer (collectively, the “Executive Officers”), which provided certain annual post-retirement pension benefits (the “Retirement Benefits”) depending on the year of retirement. In response to concerns expressed by significant institutional investors, and in accordance with the recommendation of an independent compensation consultant to the Company’s Compensation Committee, the Company announced that it had reached agreements (collectively, the “Second Amendments”) with the Executive Officers for the early termination, effective on October 18, 2013, of the Retirement Benefits contained in their respective Employment Agreements. The Company’s termination of the Retirement Benefits is irrevocable. No further accruals of expenses related to Retirement Benefits were recorded subsequent to the 2013 third quarter. Pursuant to the Second Amendments, on October 20, 2014, the Company paid each of Mr. Mizel and Mr. Mandarich a lump sum in the amount of $14.8 million and $16.0 million, respectively, in full satisfaction of their past, present and future Retirement Benefits.

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## 14. 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. As a result, we recorded income tax expense of $8.5 million and $28.1 million for the three and nine months ended September 30, 2014, respectively, compared to a benefit of $1.3 million and $188.2 million for the same respective periods in 2013. Our overall effective income tax rates were 35.4% and 36.7% for the three and nine months ended September 30, 2014, respectively, while our effective tax rates for the same periods in 2013 were not meaningful as the income tax benefit was not directly correlated to the amount of pretax income in such periods due to a $187.6 million benefit from the reversal of our deferred tax asset valuation allowance in the 2013 second quarter.

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. The tax effects of significant temporary differences that give rise to our net deferred tax asset are as follows:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| | (Dollars in thousands) | |
| Deferred tax assets: | | |
| Federal net operating loss carryforwards | $51,956 | $72,700 |
| State net operating loss carryforwards | 40,485 | 38,082 |
| Alternative minimum tax and other tax credit carryforwards | 25,539 | 24,196 |
| Stock-based compensation expense | 26,753 | 26,651 |
| Warranty, litigation and other reserves | 12,527 | 15,543 |
| Receivables from related party | 11,915 | 12,132 |
| Accrued compensation | 4,957 | 11,136 |
| Asset impairment charges | 4,728 | 5,496 |
| Inventory, additional costs capitalized for tax purposes | 3,183 | 1,700 |
| Other, net | 4,030 | 3,446 |
| Total deferred tax assets | 186,073 | 211,082 |
| Valuation allowance | (14,988) | (14,669) |
| Total deferred tax assets, net of valuation allowance | 171,085 | 196,413 |
| | | |
| Deferred tax liabilities: | | |

| | | |
|---|---|---|
| Property, equipment and other assets | 5,161 | 5,512 |
| Discount on notes receivable | 4,204 | 4,204 |
| Deferred revenue | 4,148 | 3,985 |
| Unrealized gain on marketable securities | 1,485 | 4,915 |
| Other, net | 1,545 | 1,535 |
| Total deferred tax liabilities | 16,543 | 20,151 |
| Net deferred tax asset | $154,542 | $176,262 |

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## 15. Senior Notes

The following table sets forth the carrying amount of our senior notes as of September 30, 2014 and December 31, 2013, net of applicable discounts:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| | (Dollars in thousands) | |
| 5 % Senior Notes due December 2014, net | $- | $249,814 |
| 5 % Senior Notes due July 2015, net | 249,967 | 249,935 |
| 5 % Senior Notes due February 2020, net | 246,302 | 245,871 |
| 5½% Senior Notes due January 2024, net | 250,000 | - |
| 6% Senior Notes due January 2043 | 350,000 | 350,000 |
| Total | $1,096,269 | $1,095,620 |

On January 15, 2014, we issued $250 million of 5½% Senior Notes due 2024 (the “5½% Notes”). The 5½% Notes, which pay interest semi-annually in arrears on January 15 and July 15 of each year, with payments commencing July 15, 2014, are general unsecured obligations of MDC and rank equally and ratably with our other general unsecured and unsubordinated indebtedness. We received proceeds of $248.4 million, net of underwriting fees of $1.6 million.

During the first quarter 2014, we redeemed our 5 % Senior Notes due December 2014. As a result of this transaction, we paid $259.1 million to extinguish $250 million in debt principal with a carrying value, including unamortized deferred financing costs, of $249.7 million and recorded a $9.4 million expense for loss on extinguishment of debt.

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.

## 16. Stock Based Compensation

We account for share-based awards in accordance with ASC 718, *Compensation-Stock Compensation*, 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.

For the three and nine months ended September 30, 2014, we expensed $1.5 million and $2.7 million, respectively, for stock option grants, compared to $1.9 million and $4.7 million, respectively, during the same periods in 2013. We expensed $0.7 million and $2.0 million for restricted stock awards during the three and nine months ended September 30, 2014, respectively, compared to $1.1 million and $3.5 million, respectively, during the same periods in 2013.

## 17. 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 September 30, 2014, we had issued and outstanding surety bonds and letters of credit totaling $135.7 million and $34.9 million, respectively, including $18.2 million in letters of credit issued by HomeAmerican. The estimated cost to complete obligations related to these bonds and letters of credit was approximately $56.0 million and $7.3 million, respectively. The letters of credit as of September 30, 2014, excluding those issued by HomeAmerican, were outstanding under our unsecured revolving credit facility (see Note 19 for further discussion of the revolving credit facility). We expect that the obligations secured by these performance bonds and letters of credit generally will be performed in the ordinary course of business and in accordance with the applicable contractual terms. To the extent that the obligations are performed, the related performance bonds and letters of credit should be released and we should not have any continuing obligations. However, in the event any such performance bonds or letters of credit are called, our indemnity obligations could require us to reimburse the issuer of the performance bond or letter of credit.

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We have made no material guarantees with respect to third-party obligations.

*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, but not limited to, allegations of homebuyer fraud at the time of origination of the loan, missing documentation, loan processing defects or defective appraisals. These reserves are based upon, among other matters: (1) pending claims received from third-party purchasers associated with previously sold mortgage loans; (2) a current assessment of the potential exposure associated with future claims of homebuyer fraud in mortgage loans originated in prior periods; and (3) historical loss experience. In addition to reserves established for mortgage loans previously sold to third-parties, we establish reserves for loans that we have been required to repurchase. 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.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (Dollars in thousands) | | | |
| Balance at beginning of period | $714 | $1,350 | $1,370 | $976 |
| Expense provisions | 42 | 603 | 42 | 1,189 |
| Cash payments | - | (200 ) | (237 ) | (356 ) |
| Adjustments | (160) | 48 | (579 ) | (8 ) |
| Balance at end of period | $596 | $1,801 | $596 | $1,801 |

*Legal Reserves.* 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 allow 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 is generally limited to forfeiture of the related deposits. At September 30, 2014, we had cash deposits and letters of credit totaling $14.8 million and $2.8 million, respectively, at risk associated with the option to purchase 2,763 lots.

## 18. Derivative Financial Instruments

The derivative instruments we utilize in the normal course of business are interest rate lock commitments and forward sales of mortgage-backed securities, both of which typically are short-term in nature. Forward sales of mortgage-backed securities are utilized to hedge changes in fair value of our interest rate lock commitments as well as mortgage loans held-for-sale not under commitments to sell. For forward sales of securities, as well as interest rate lock commitments that are still outstanding at the end of a reporting period, we record the changes in fair value of the derivatives in revenues in the financial services section of our consolidated statements of operations with an offset to prepaid expenses and other assets or accounts payable and accrued liabilities in the financial services section of our accompanying consolidated balance sheets, depending on the nature of the change.

At September 30, 2014, we had interest rate lock commitments with an aggregate principal balance of $68.8 million. Additionally, we had $6.0 million of mortgage loans held-for-sale that were not under commitments to sell at September 30, 2014. In order to hedge the changes in fair value of our interest rate lock commitments and mortgage loans held-for-sale which had not yet been committed to a mortgage purchaser, we had forward sales of securities totaling $49.5 million at September 30, 2014.

For the three and nine months ended September 30, 2014, we recorded a net loss of $0 and $0.4 million, respectively, compared to a net gain of $0.4 million and $1.8 million for the same periods in 2013.

**M.D.C. HOLDINGS, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**19. Lines of Credit**

*Revolving Credit Facility.* On December 13, 2013, we entered into an unsecured revolving credit facility ("Revolving Credit Facility") with a group of lenders which may be used for general corporate purposes. Our Revolving Credit Facility has an aggregate commitment amount of $450 million (the "Commitment") and a maturity date of December 13, 2018. Each lender may issue letters of credit in an amount up to 50% of its commitment. The facility permits an increase in the maximum Commitment amount to $1.0 billion upon our request, subject to receipt of additional commitments from existing or additional lenders. Interest rates on outstanding borrowings are determined by reference to a specified London Interbank Offered Rate (LIBOR), a specified federal funds effective rate or a specified prime rate, plus a margin that is determined based on our credit ratings and leverage ratio, as defined in the facility agreement. At any time at which our leverage ratio, as of the last day of the most recent calendar quarter, exceeds 55%, the aggregate principal amount of all consolidated senior debt borrowings outstanding may not exceed the borrowing base. There is no borrowing base requirement if our leverage ratio, as of the last day of the most recent calendar quarter, is 55% or less.

The Revolving Credit Facility is fully and unconditionally guaranteed, jointly and severally, by most of our homebuilding segment subsidiaries. The facility contains various representations, warranties and covenants that we believe are customary for agreements of this type. The financial covenants include a consolidated tangible net worth test and a leverage test, along with a consolidated tangible net worth covenant, all as defined in the facility agreement. A failure to satisfy the foregoing tests does not constitute an event of default, but can trigger a "term-out" of the facility. A breach of the consolidated tangible net worth covenant (but not the consolidated tangible net worth test) would result in an event of default.

The Revolving Credit Facility is subject to acceleration upon certain specified events of default, including breach of the consolidated tangible net worth covenant, failure to make timely payments, breaches of certain representations or covenants, failure to pay other material indebtedness, or another person becoming beneficial owner of 50% or more of our outstanding common stock. We believe we were in compliance with the representations, warranties and covenants included in the Revolving Credit Facility as of September 30, 2014.

We incur costs associated with unused commitment fees pursuant to the terms of the Revolving Credit Facility. At September 30, 2014 and December 31, 2013, there were $16.6 million and $14.9 million, respectively, in letters of credit outstanding, which reduced the amounts available to be borrowed under the Revolving Credit Facility. As of September 30, 2014 we had $10.0 million in borrowings outstanding under the Revolving Credit Facility and no outstanding borrowings as of December 31, 2013. As of September 30, 2014, availability under the Revolving Credit

Facility was approximately $423.4 million.

*Mortgage Repurchase Facility.* HomeAmerican has a Master Repurchase Agreement, (the "Mortgage Repurchase Facility"), with U.S. Bank National Association ("USBNA"). This agreement was amended on September 19, 2014 and extended until September 18, 2015. 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 the maximum aggregate commitment from $50 million to $80 million from December 31, 2013 through January 30, 2014, had a maximum aggregate commitment of $50 million as of September 30, 2014. At September 30, 2014 and December 31, 2013, we had $31.8 million and $63.1 million, respectively, of mortgage loans that we were obligated to repurchase under our Mortgage Repurchase Facility. Mortgage loans that we are obligated to repurchase under the Mortgage Repurchase Facility are accounted for as a debt financing arrangement and are reported as mortgage repurchase facility in the consolidated balance sheets. Advances under the Mortgage Repurchase Facility carry a price range that is LIBOR-based. The Mortgage Repurchase Facility contains various representations, warranties and affirmative and negative covenants that we believe are customary for agreements of this type. The negative covenants include, among others, (i) a minimum Adjusted Tangible Net Worth requirement, (ii) a maximum Adjusted Tangible Net Worth Ratio, (iii) a minimum 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 September 30, 2014.

**M.D.C. HOLDINGS, INC.**

**Notes to Unaudited Consolidated Financial Statements**

## 20. Subsequent Events

On October 27, 2014, we redeemed our 5 % Senior Notes due July 2015. As a result of this transaction, we paid $258.5 million to extinguish $250 million in debt principal with a carrying value, including unamortized deferred financing costs, of $249.8 million and recorded an $8.7 million expense for loss on extinguishment of debt. The redemption of securities was funded with cash on hand that was procured primarily through the sale of various investments. In connection with the sale of securities to fund the redemption, we recorded an other-than-temporary impairment of $4.3 million in the 2014 third quarter for securities that were in a loss position at September 30, 2014 (see Note 6).

## 21. Supplemental Guarantor Information

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

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

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

**M.D.C. HOLDINGS, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**Supplemental Condensed Combining Balance Sheet**

| | September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | MDC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminating Entries | Consolidated MDC |
| | Dollars in thousands | | | | |
| **ASSETS** | | | | | |
| **Homebuilding:** | | | | | |
| Cash and cash equivalents | $53,732 | $2,771 | $ - | $- | $56,503 |
| Marketable securities | 437,444 | - | - | - | 437,444 |
| Restricted cash | - | 3,034 | - | - | 3,034 |
| Trade receivables | 7,622 | 19,747 | - | (2,411) | 24,958 |
| Inventories: | | | | | |
| Housing completed or under construction | - | 836,520 | - | - | 836,520 |
| Land and land under development | - | 854,677 | - | - | 854,677 |
| Total inventories | - | 1,691,197 | - | - | 1,691,197 |
| Intercompany receivables | 1,468,682 | 2,854 | 5,472 | (1,477,008) | - |
| Investment in subsidiaries | 239,529 | - | - | (239,529) | - |
| Metropolitan district bond securities (related party) | 15,379 | - | - | - | 15,379 |
| Deferred tax asset, net | 151,508 | - | - | 3,034 | 154,542 |
| Other assets, net | 41,720 | 57,300 | - | - | 99,020 |
| Total Homebuilding Assets | 2,415,616 | $1,776,903 | 5,472 | (1,715,914) | 2,482,077 |
| **Financial Services:** | | | | | |
| Cash and cash equivalents | - | - | 26,616 | - | 26,616 |
| Marketable securities | - | - | 17,195 | - | 17,195 |
| Intercompany receivables | - | - | 38,744 | (38,744) | - |
| Mortgage loans held-for-sale, net | - | - | 58,132 | - | 58,132 |
| Other assets, net | - | - | 7,229 | (3,034) | 4,195 |
| Total Financial Services Assets | - | - | 147,916 | (41,778) | 106,138 |
| Total Assets | $2,415,616 | $1,776,903 | $ 153,388 | $(1,757,692) | $2,588,215 |
| **LIABILITIES AND EQUITY** | | | | | |
| **Homebuilding:** | | | | | |
| Accounts payable | $- | $39,927 | $ - | $- | $39,927 |
| Accrued liabilities | 36,701 | 90,001 | 26 | 1,664 | 128,392 |

| | | | | | |
|---|---|---|---|---|---|
| Advances and notes payable to parent and subsidiaries | 47,071 | 1,442,113 | 23,811 | (1,512,995) | - |
| Revolving credit facility | 10,000 | - | - | - | 10,000 |
| Senior notes, net | 1,096,269 | - | - | - | 1,096,269 |
| Total Homebuilding Liabilities | 1,190,041 | 1,572,041 | 23,837 | (1,511,331) | 1,274,588 |
| **Financial Services:** | | | | | |
| Accounts payable and other liabilities | - | - | 60,345 | (4,075) | 56,270 |
| Advances and notes payable to parent and subsidiaries | - | - | 2,757 | (2,757) | - |
| Mortgage repurchase facility | - | - | 31,782 | - | 31,782 |
| Total Financial Services Liabilities | - | - | 94,884 | (6,832) | 88,052 |
| Total Liabilities | 1,190,041 | 1,572,041 | 118,721 | (1,518,163) | 1,362,640 |
| **Equity:** | | | | | |
| Total Stockholders' Equity | 1,225,575 | 204,862 | 34,667 | (239,529) | 1,225,575 |
| Total Liabilities and Stockholders' Equity | $2,415,616 | $1,776,903 | $ 153,388 | $(1,757,692) | $ 2,588,215 |

**M.D.C. HOLDINGS, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**Supplemental Condensed Combining Balance Sheet**

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | MDC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminating Entries | Consolidated MDC |
| | (Dollars in thousands) | | | | |
| **ASSETS** | | | | | |
| **Homebuilding:** | | | | | |
| Cash and cash equivalents | $145,180 | $3,454 | $ - | $- | $148,634 |
| Marketable securities | 569,021 | - | - | - | 569,021 |
| Restricted cash | - | 2,195 | - | - | 2,195 |
| Trade receivables | 915 | 27,951 | - | (5,459) | 23,407 |
| Inventories: | | | | | |
| Housing completed or under construction | - | 636,700 | - | - | 636,700 |
| Land and land under development | - | 774,961 | - | - | 774,961 |
| Total inventories | - | 1,411,661 | - | - | 1,411,661 |
| Intercompany receivables | 1,144,292 | 2,576 | 1,899 | (1,148,767) | - |
| Investment in subsidiaries | 335,870 | - | - | (335,870) | - |
| Deferred tax asset, net | 172,975 | - | - | 3,287 | 176,262 |
| Metropolitan district bond securities (related party) | 12,729 | - | - | - | 12,729 |
| Other assets, net | 41,204 | 43,569 | - | - | 84,773 |
| Total Homebuilding Assets | 2,422,186 | 1,491,406 | 1,899 | (1,486,809) | 2,428,682 |
| **Financial Services:** | | | | | |
| Cash and cash equivalents | - | - | 50,704 | - | 50,704 |
| Marketable securities | - | - | 19,046 | - | 19,046 |
| Intercompany receivables | - | - | 11,216 | (11,216) | - |
| Mortgage loans held-for-sale, net | - | - | 92,578 | - | 92,578 |
| Other assets, net | - | - | 7,726 | (3,287) | 4,439 |
| Total Financial Services Assets | - | - | 181,270 | (14,503) | 166,767 |
| Total Assets | $2,422,186 | $1,491,406 | $183,169 | $(1,501,312) | $2,595,449 |

**LIABILITIES AND EQUITY**

**Homebuilding:**

| | | | | | |
|---|---|---|---|---|---|
| Accounts payable | $13 | $15,033 | $ - | $- | $15,046 |
| Accrued liabilities | 97,612 | 56,334 | 82 | (1,207) | 152,821 |
| Advances and notes payable to parent and subsidiaries | 15,692 | 1,121,581 | 19,668 | (1,156,941) | - |
| Senior notes, net | 1,095,620 | - | - | - | 1,095,620 |
| Total Homebuilding Liabilities | 1,208,937 | 1,192,948 | 19,750 | (1,158,148) | 1,263,487 |
| | | | | | |
| **Financial Services:** | | | | | |
| Accounts payable and other liabilities | - | - | 59,891 | (4,252) | 55,639 |
| Advances and notes payable to parent and subsidiaries | - | - | 3,042 | (3,042) | - |
| Mortgage repurchase facility | - | - | 63,074 | - | 63,074 |
| Total Financial Services Liabilities | - | - | 126,007 | (7,294) | 118,713 |
| Total Liabilities | 1,208,937 | 1,192,948 | 145,757 | (1,165,442) | 1,382,200 |
| | | | | | |
| **Equity:** | | | | | |
| Total Stockholders' Equity | 1,213,249 | 298,458 | 37,412 | (335,870) | 1,213,249 |
| Total Liabilities and Stockholders' Equity | $2,422,186 | $1,491,406 | $ 183,169 | $(1,501,312) | $2,595,449 |

**M.D.C. HOLDINGS, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**Supplemental Condensed Combining Statement of Operations**

| | Three Months Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | MDC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminating Entries | Consolidated MDC |
| | (Dollars in thousands) | | | | |
| **Homebuilding:** | | | | | |
| Revenues | $ - | $ 407,704 | $ - | $ - | $ 407,704 |
| Cost of Sales | - | (340,022 ) | - | - | (340,022 ) |
| Inventory impairments | - | - | - | - | - |
| Gross margin | - | 67,682 | - | - | 67,682 |
| Selling, general, and administrative expenses | (7,813 ) | (42,532 ) | - | (167 ) | (50,512 ) |
| Equity income of subsidiaries | 19,538 | - | - | (19,538 ) | - |
| Interest and other income | 5,680 | 254 | 3 | (11 ) | 5,926 |
| Interest expense | - | - | - | - | - |
| Other expense | (2 ) | (839 ) | - | - | (841 ) |
| Loss on early extinguishment of debt | - | - | - | - | - |
| Other-than-temporary impairment of marketable securities | (4,293 ) | - | - | - | (4,293 ) |
| Homebuilding pretax income (loss) | 13,110 | 24,565 | 3 | (19,716 ) | 17,962 |
| **Financial Services:** | | | | | |
| Financial services pretax income | - | - | 5,784 | 178 | 5,962 |
| Income before income taxes | 13,110 | 24,565 | 5,787 | (19,538 ) | 23,924 |
| (Provision) benefit for income taxes | 2,348 | (8,677 ) | (2,137 ) | - | (8,466 ) |
| Net income | $ 15,458 | $ 15,888 | $ 3,650 | $ (19,538 ) | $ 15,458 |
| Other comprehensive income related to available-for-sale securities, net of tax | (2,484 ) | - | (208 ) | 208 | (2,484 ) |
| Comprehensive income | $ 12,974 | $ 15,888 | $ 3,442 | $ (19,330 ) | $ 12,974 |

**M.D.C. HOLDINGS, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**Supplemental Condensed Combining Statement of Operations**

| | Three Months Ended September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | MDC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminating Entries | Consolidated MDC |
| | (Dollars in thousands) | | | | |
| **Homebuilding:** | | | | | |
| Revenues | $- | $ 433,718 | $ - | $ - | $ 433,718 |
| Cost of Sales | - | (354,924 ) | - | - | (354,924 ) |
| Inventory impairments | - | (350 ) | - | - | (350 ) |
| Gross margin | - | 78,444 | - | - | 78,444 |
| Selling, general, and administrative expenses | (18,067) | (39,594 ) | 2 | (94 ) | (57,753 ) |
| Equity income of subsidiaries | 29,421 | - | - | (29,421 ) | - |
| Interest and other income | 6,434 | 408 | 11 | - | 6,853 |
| Interest expense | - | - | - | - | - |
| Other expense | (3 ) | (878 ) | - | - | (881 ) |
| Loss on early extinguishment of debt | - | - | - | - | - |
| Other-than-temporary impairment of marketable securities | - | - | - | - | - |
| Homebuilding pretax income (loss) | 17,785 | 38,380 | 13 | (29,515 ) | 26,663 |
| **Financial Services:** | | | | | |
| Financial services pretax income | - | - | 8,152 | 94 | 8,246 |
| Income before income taxes | 17,785 | 38,380 | 8,165 | (29,421 ) | 34,909 |
| (Provision) benefit for income taxes | 18,466 | (13,820 ) | (3,304 ) | - | 1,342 |
| Net income | $36,251 | $ 24,560 | $ 4,861 | $ (29,421 ) | $ 36,251 |
| Other comprehensive income related to available-for-sale securities, net of tax | 1,960 | - | 86 | (86 ) | 1,960 |
| Comprehensive income | $38,211 | $ 24,560 | $ 4,947 | $ (29,507 ) | $ 38,211 |

**M.D.C. HOLDINGS, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**Supplemental Condensed Combining Statement of Operations**

| | Nine Months Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | MDC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminating Entries | Consolidated MDC |
| | (Dollars in thousands) | | | | |
| **Homebuilding:** | | | | | |
| Revenues | $ - | $ 1,157,499 | $ - | $ - | $ 1,157,499 |
| Cost of Sales | - | (956,197) | - | - | (956,197) |
| Inventory impairments | - | (850) | - | - | (850) |
| Gross margin | - | 200,452 | - | - | 200,452 |
| Selling, general, and administrative expenses | (30,534) | (117,619) | - | (499) | (148,652) |
| Equity income of subsidiaries | 62,290 | - | - | (62,290) | - |
| Interest and other income | 23,021 | 1,089 | 12 | (34) | 24,088 |
| Interest expense | (685) | - | - | - | (685) |
| Other expense | (6) | (2,528) | - | - | (2,534) |
| Loss on early extinguishment of debt | (9,412) | - | - | - | (9,412) |
| Other-than-temporary impairment of marketable securities | (4,293) | - | - | - | (4,293) |
| Homebuilding pretax income (loss) | 40,381 | 81,394 | 12 | (62,823) | 58,964 |
| **Financial Services:** | | | | | |
| Financial services pretax income | - | - | 17,093 | 533 | 17,626 |
| Income before income taxes | 40,381 | 81,394 | 17,105 | (62,290) | 76,590 |
| (Provision) benefit for income taxes | 8,123 | (29,848) | (6,361) | - | (28,086) |
| Net income | $ 48,504 | $ 51,546 | $ 10,744 | $ (62,290) | $ 48,504 |
| Other comprehensive income related to available-for-sale securities, net of tax | (4,203) | - | (93) | 93 | (4,203) |
| Comprehensive income | $ 44,301 | $ 51,546 | $ 10,651 | $ (62,197) | $ 44,301 |

**M.D.C. HOLDINGS, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**Supplemental Condensed Combining Statement of Operations**

| | Nine Months Ended September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | MDC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminating Entries | Consolidated MDC |
| **Homebuilding:** | | | | | |
| Revenues | $- | $1,168,848 | $ - | $ (1,248 ) | $ 1,167,600 |
| Cost of Sales | - | (959,610 ) | - | 1,248 | (958,362 ) |
| Inventory impairments | - | (350 ) | - | - | (350 ) |
| Gross margin | - | 208,888 | - | - | 208,888 |
| Selling, general, and administrative expenses | (48,163 ) | (109,439 ) | (1 ) | (259 ) | (157,862 ) |
| Equity income of subsidiaries | 99,079 | - | - | (99,079 ) | - |
| Interest and other income | 22,491 | 1,100 | 11 | - | 23,602 |
| Interest expense | (1,726 ) | - | - | - | (1,726 ) |
| Other expense | (11 ) | (1,592 ) | - | - | (1,603 ) |
| Loss on early extinguishment of debt | - | - | - | - | - |
| Other-than-temporary impairment of marketable securities | - | - | - | - | - |
| Homebuilding pretax income (loss) | 71,670 | 98,957 | 10 | (99,338 ) | 71,299 |
| **Financial Services:** | | | | | |
| Financial services pretax income | - | - | 23,949 | 259 | 24,208 |
| Income before income taxes | 71,670 | 98,957 | 23,959 | (99,079 ) | 95,507 |
| (Provision) benefit for income taxes | 212,006 | (14,646 ) | (9,191 ) | - | 188,169 |
| Net income | $283,676 | $84,311 | $ 14,768 | $ (99,079 ) | $ 283,676 |
| Other comprehensive income related to available-for-sale securities, net of tax | 2,500 | - | (206 ) | 206 | 2,500 |
| Comprehensive income | $286,176 | $84,311 | $ 14,562 | $ (98,873 ) | $ 286,176 |

**M.D.C. HOLDINGS, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**Supplemental Condensed Combining Statement of Cash Flows**

| | Nine Months Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | MDC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminating Entries | Consolidated MDC |
| | (Dollars in thousands) | | | | |
| Net cash provided by (used in) operating activities | $(44,477) | $(174,980) | $46,201 | $- | $(173,256) |
| Net cash provided by (used in) investing activities | (9,675) | (428) | 1,717 | 134,011 | 125,625 |
| Financing activities: | | | | | |
| Payments from (advances to) subsidiaries | - | 174,725 | (40,714) | (134,011) | - |
| Advances on mortgage repurchase facility, net | - | - | (31,292) | - | (31,292) |
| Proceeds from issuance of senior notes | 248,375 | - | - | - | 248,375 |
| Repayment of senior notes | (259,118) | - | - | - | (259,118) |
| Advances on revolving credit facility, net | 10,000 | - | - | - | 10,000 |
| Dividend payments | (36,616) | - | - | - | (36,616) |
| Proceeds from exercise of stock options | 63 | - | - | - | 63 |
| Net cash provided by (used in) financing activities | (37,296) | 174,725 | (72,006) | (134,011) | (68,588) |
| Net increase in cash and cash equivalents | (91,448) | (683) | (24,088) | - | (116,219) |
| Cash and cash equivalents: | | | | | |
| Beginning of period | 145,180 | 3,454 | 50,704 | - | 199,338 |
| End of period | $53,732 | $2,771 | $26,616 | $- | $83,119 |

| | Nine Months Ended September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | MDC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminating Entries | Consolidated MDC |
| | (Dollars in thousands) | | | | |
| Net cash provided by (used in) operating activities | $5,851 | $(357,618) | $125,907 | $- | $(225,860) |
| Net cash provided by (used in) investing activities | (338,320) | (881) | 10,323 | 277,288 | (51,590) |
| Financing activities: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Payments from (advances to) subsidiaries | - | 359,280 | (81,992 ) | (277,288 ) | - |
| Advances on mortgage repurchase facility, net | - | - | (37,415 ) | - | (37,415 ) |
| Proceeds from the issuance of senior notes | 346,938 | - | - | - | 346,938 |
| Proceeds from exercise of stock options | 5,118 | - | - | - | 5,118 |
| Net cash provided by (used in) financing activities | 352,056 | 359,280 | (119,407 ) | (277,288 ) | 314,641 |
| | | | | | |
| Net increase (decrease) in cash and cash equivalents | 19,587 | 781 | 16,823 | - | 37,191 |
| Cash and cash equivalents: | | | | | |
| Beginning of period | 125,904 | 3,308 | 30,883 | - | 160,095 |
| End of period | $ 145,491 | $ 4,089 | $ 47,706 | $ - | $ 197,286 |

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**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" of our Annual Report on Form 10-K for the year ended December 31, 2013 and this Quarterly Report on Form 10-Q.*

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (Dollars in thousands, except per share amounts) | | | |
| **Homebuilding:** | | | | |
| Home sale revenues | $405,051 | $433,693 | $1,154,328 | $1,165,768 |
| Land sale revenues | 2,653 | 25 | 3,171 | 1,832 |
| Total home and land sale revenues | 407,704 | 433,718 | 1,157,499 | 1,167,600 |
| Home cost of sales | (338,037) | (354,889) | (953,690) | (956,892) |
| Land cost of sales | (1,985) | (35) | (2,507) | (1,470) |
| Inventory impairments | - | (350) | (850) | (350) |
| Total cost of sales | (340,022) | (355,274) | (957,047) | (958,712) |
| Gross margin | 67,682 | 78,444 | 200,452 | 208,888 |
| Gross margin % | 16.6% | 18.1% | 17.3% | 17.9% |
| Selling, general and administrative expenses | (50,512) | (57,753) | (148,652) | (157,862) |
| Interest and other income | 5,926 | 6,853 | 24,088 | 23,602 |
| Interest expense | - | - | (685) | (1,726) |
| Other expense | (841) | (881) | (2,534) | (1,603) |
| Loss on early extinguishment of debt | - | - | (9,412) | - |
| Other-than-temporary impairment of marketable securities | (4,293) | - | (4,293) | - |
| Homebuilding pretax income | 17,962 | 26,663 | 58,964 | 71,299 |
| **Financial Services:** | | | | |
| Revenues | 10,699 | 14,282 | 31,413 | 40,672 |
| Expenses | (5,643) | (6,921) | (16,182) | (19,144) |
| Interest and other income | 906 | 885 | 2,395 | 2,680 |
| Financial services pretax income | 5,962 | 8,246 | 17,626 | 24,208 |
| Income before income taxes | 23,924 | 34,909 | 76,590 | 95,507 |
| Benefit from (provision for) income taxes | (8,466) | 1,342 | (28,086) | 188,169 |

| | | | | |
|---|---|---|---|---|
| Net income | $15,458 | $36,251 | $48,504 | $283,676 |
| | | | | |
| Earnings per share: | | | | |
| Basic | $0.32 | $0.74 | $0.99 | $5.80 |
| Diluted | $0.32 | $0.74 | $0.99 | $5.75 |
| | | | | |
| Weighted average common shares outstanding: | | | | |
| Basic | 48,625,685 | 48,478,403 | 48,607,425 | 48,423,969 |
| Diluted | 48,830,790 | 48,753,649 | 48,824,871 | 48,852,870 |
| | | | | |
| Dividends declared per share | $0.25 | $- | $0.75 | $- |
| | | | | |
| Cash provided by (used in): | | | | |
| Operating Activities | $(76,984) | $(79,617) | $(173,256) | $(225,860) |
| Investing Activities | $42,700 | $37,421 | $125,625 | $(51,590) |
| Financing Activities | $(12,628) | $(9,936) | $(68,588) | $314,641 |

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*Overview*

During the 2014 third quarter, our results were mixed as we continued to navigate our operations through an uneven recovery for the homebuilding industry. Following a significant increase in home prices during the first half of 2013, the use of incentives to stimulate demand for new homes in certain markets has become more prevalent in 2014. These additional incentives, combined with the escalation of both land and construction costs, have pressured our homebuilding gross margin percentage, which decreased both sequentially and year-over-year in the 2014 third quarter. We have been able to partially offset the impact of the margin pressure by reducing overhead expenses. Additionally, we increased our net new home orders for the 2014 third quarter 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.

Our net income for the 2014 third quarter was $15.5 million, or $0.32 per diluted share, compared to net income of $36.3 million, or $0.74 per diluted share, for the year earlier period. The decrease was attributable in part to a $14.7 million benefit from the reversal of a portion of our deferred tax asset valuation allowance in the 2013 third quarter, which resulted in a net tax benefit of $1.3 million, while for the 2014 third quarter we had no such net tax benefit and instead recognized $8.5 million of income tax expense. Additionally, we recognized a $4.3 million impairment on certain marketable securities sold subsequent to quarter end to fund our early retirement of debt (see below) and gross margins declined $10.8 million, due to a 7% year-over-year decline in home sale revenues and a 160 basis point decline in our gross margin from home sales percentage. A 13% decline in homes delivered, partially offset by a 7% improvement in average selling price, drove the 7% decline in home sale revenues. The decrease in homes delivered was attributable to a 10% year-over-year decrease in backlog at the beginning of the quarter and a slightly lower backlog conversion rate. These items were offset in part by a $7.2 million year-over-year improvement in our homebuilding selling, general and administrative ("SG&A") expenses, primarily due to lower legal and compensation-related expenses. SG&A expenses as a percentage of home sale revenues ("SG&A rate") improved by 80 basis points year-over-year to 12.5%.

For the first time since the second quarter of 2013, we experienced a year-over-year increase in the number of units in our backlog at the end of the 2014 third quarter, in large part the result of a 17% year-over-year increase in net new home orders, which benefited from a 20% increase in average active subdivisions to 164. This increase in units, coupled with a 13% increase in the average selling price of net new home orders, primarily drove a 17% year-over-year increase in the dollar value of homes in backlog to $792.1 million.

For the nine months ended September 30, 2014, our net income was $48.5 million, or $0.99 per diluted share, compared to net income of $283.7 million, or $5.75 per diluted share, for the year earlier period. The decrease was attributable primarily to the $187.6 million benefit from the reversal of our deferred tax asset valuation allowance in the 2013 second quarter, while for the nine months ended September 30, 2014 we had no such benefit and recognized $28.1 million of income tax expense. The nine month period for 2014 was also adversely impacted by a $9.4 million charge related to the early extinguishment of debt recognized in the 2014 first quarter, a 60 basis point decline in gross margin from home sales and a 27% decline in financial services income, due primarily to more competitive mortgage market conditions and higher interest rates. These declines were partially offset by a 60 basis point improvement in our SG&A rate.

During the 2014 third quarter, we purchased nearly 1,300 lots in 33 communities, including 20 new communities. Year-to-date, we purchased approximately 3,700 lots in 92 communities, 66 of which were new, resulting in an increase to our inventories by $279.5 million since the beginning of the year. The investment in inventories was funded using our cash and marketable securities. Including amounts available under our $450 million revolving credit facility, we ended the third quarter with total liquidity of approximately $1.0 billion, up 21% over the prior year. In October of 2014, we redeemed our 5 % Senior Notes due July 2015. As a result of this transaction, we paid $258.5 million to extinguish $250 million in debt principal.

***Homebuilding***

*Pretax Income*

| | Three Months Ended | | | | Nine Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | September 30, | | Change | | September 30, | | Change | |
| | 2014 | 2013 | Amount | % | 2014 | 2013 | Amount | % |
| | (Dollars in thousands) | | | | | | | |
| West | $12,402 | $19,539 | $(7,137) | (37)% | $41,747 | $46,929 | $(5,182) | (11)% |
| Mountain | 11,031 | 12,203 | (1,172) | (10)% | 30,572 | 39,341 | (8,769) | (22)% |
| East | 1,138 | 6,657 | (5,519) | (83)% | 9,095 | 12,708 | (3,613) | (28)% |
| Corporate | (6,609) | (11,736) | 5,127 | (44)% | (22,450) | (27,679) | 5,229 | (19)% |
| Total homebuilding pretax income | $17,962 | $26,663 | $(8,701) | (33)% | $58,964 | $71,299 | $(12,335) | (17)% |

For the 2014 third quarter, homebuilding pretax income decreased $8.7 million to $18.0 million, compared to pretax income of $26.7 million for the third quarter of 2013. The impact of a 160 basis point decrease in our gross margin from home sales, a 7% decline in our home sale revenues and a $4.3 million impairment on certain marketable securities sold subsequent to quarter end to fund our early debt redemption more than offset an 80 basis point improvement in our SG&A rate. The improvement in our Corporate segment's pretax loss was due primarily to a decrease in compensation-related expense for certain executive officers. Each of our homebuilding regions experienced a year-over-year decrease in pretax income resulting from declines in both homes delivered and gross margin from home sales.

Homebuilding pretax income for the nine months ended September 30, 2014 was $59.0 million, down $12.3 million from $71.3 million for the same period in 2013, largely due to a charge of $9.4 million related to the early extinguishment of debt and a 60 basis point decline in our gross margin from home sales, which was partially offset by lower legal and compensation-related expenses. The decline in our East segment was primarily the result of a 10% year-over-year decline in the number of homes delivered, partially offset by a $3.6 million improvement in legal expenses, while declines in our West and Mountain segments were the result of decreases in both homes delivered and gross margin from home sales. For our Corporate segment, an improvement in pretax income was primarily the result of a decrease in compensation-related expense for certain executive officers.

*Assets*

| | September 30, | December 31, | Change |
|---|---|---|---|

| | 2014 | 2013 | Amount | % |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| West | $911,952 | $760,450 | $151,502 | 20% |
| Mountain | 519,332 | 418,796 | 100,536 | 24% |
| East | 342,766 | 297,627 | 45,139 | 15% |
| Corporate | 708,027 | 951,809 | (243,782) | (26)% |
| Total homebuilding assets | $2,482,077 | $2,428,682 | $53,395 | 2% |

Homebuilding assets increased slightly during the first nine months of 2014. 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. The funds for these investments came from our Corporate segment, resulting in a decline in Corporate segment assets of $243.8 million.

*Home and land sale revenues*

| | Three Months Ended September 30, | | Change | | Nine Months Ended September 30, | | Change | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | Amount | % | 2014 | 2013 | Amount | % |
| | (Dollars in thousands) | | | | | | | |
| West | $184,627 | $188,456 | $(3,829) | (2)% | $510,710 | $487,949 | $22,761 | 5% |
| Mountain | 144,442 | 134,992 | 9,450 | 7% | 392,052 | 402,137 | (10,085) | (3)% |
| East | 78,635 | 110,270 | (31,635) | (29)% | 254,737 | 277,514 | (22,777) | (8)% |
| Total home and land sale revenues | $407,704 | $433,718 | $(26,014) | (6)% | $1,157,499 | $1,167,600 | $(10,101) | (1)% |

For the 2014 third quarter, home sale revenues decreased by $26.0 million year-over-year to $407.7 million. For the nine months ended September 30, 2014, home sale revenues decreased by $10.1 million from the prior year period to $1,157.5 million. The decreases for both the three and nine months ended September 30, 2014 compared to the same periods in the prior year were primarily driven by a decline in deliveries of 13% and 10%, respectively. In both periods the decline was most significant in our East segment, which experienced a year-over-year decline in net new orders during the spring selling season due to extreme winter weather conditions, lower active subdivision count and lower overall demand in that region. The decrease in overall deliveries was partially offset by year-over-year increases in average selling price for the three and nine months ended September 30, 2014 of 7% and 10%, respectively.

*New Home Deliveries*

| | Three Months Ended September 30, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | | % Change | | |
| | Homes | Dollar Value | Average Price | Homes | Dollar Value | Average Price | Homes | Dollar Value | Average Price |
| | (Dollars in thousands) | | | | | | | | |
| Arizona | 222 | $58,816 | $264.9 | 173 | $42,029 | $242.9 | 28% | 40% | 9% |
| California | 136 | 62,217 | 457.5 | 156 | 57,852 | 370.8 | (13)% | 8% | 23% |
| Nevada | 131 | 40,297 | 307.6 | 187 | 53,017 | 283.5 | (30)% | (24)% | 9% |
| Washington | 66 | 23,297 | 353.0 | 110 | 35,558 | 323.3 | (40)% | (34)% | 9% |
| West | 555 | 184,627 | 332.7 | 626 | 188,456 | 301.0 | (11)% | (2)% | 11% |
| Colorado | 309 | 129,056 | 417.7 | 320 | 120,402 | 376.3 | (3)% | 7% | 11% |
| Utah | 43 | 13,526 | 314.6 | 45 | 14,565 | 323.7 | (4)% | (7)% | (3)% |
| Mountain | 352 | 142,582 | 405.1 | 365 | 134,967 | 369.8 | (4)% | 6% | 10% |
| Maryland | 74 | 35,094 | 474.2 | 100 | 43,574 | 435.7 | (26)% | (19)% | 9% |
| Virginia | 56 | 26,682 | 476.5 | 90 | 46,866 | 520.7 | (38)% | (43)% | (8)% |
| Florida | 56 | 16,066 | 286.9 | 76 | 19,830 | 260.9 | (26)% | (19)% | 10% |
| East | 186 | 77,842 | 418.5 | 266 | 110,270 | 414.5 | (30)% | (29)% | 1% |
| Total | 1,093 | $405,051 | $370.6 | 1,257 | $433,693 | $345.0 | (13)% | (7)% | 7% |

| | Nine Months Ended September 30, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | | % Change | | |
| | Homes | Dollar Value | Average Price | Homes | Dollar Value | Average Price | Homes | Dollar Value | Average Price |
| | (Dollars in thousands) | | | | | | | | |
| Arizona | 531 | $138,901 | $261.6 | 443 | $105,662 | $238.5 | 20 % | 31 % | 10 % |
| California | 371 | 174,215 | 469.6 | 469 | 168,640 | 359.6 | (21)% | 3 % | 31 % |
| Nevada | 395 | 123,016 | 311.4 | 481 | 127,611 | 265.3 | (18)% | (4 )% | 17 % |
| Washington | 208 | 74,578 | 358.5 | 269 | 86,034 | 319.8 | (23)% | (13 )% | 12 % |
| West | 1,505 | 510,710 | 339.3 | 1,662 | 487,947 | 293.6 | (9 )% | 5 % | 16 % |
| Colorado | 885 | 354,443 | 400.5 | 933 | 347,211 | 372.1 | (5 )% | 2 % | 8 % |
| Utah | 111 | 35,231 | 317.4 | 171 | 53,097 | 310.5 | (35)% | (34 )% | 2 % |
| Mountain | 996 | 389,674 | 391.2 | 1,104 | 400,308 | 362.6 | (10)% | (3 )% | 8 % |
| Maryland | 232 | 108,350 | 467.0 | 237 | 100,685 | 424.8 | (2 )% | 8 % | 10 % |
| Virginia | 180 | 88,972 | 494.3 | 248 | 123,335 | 497.3 | (27)% | (28 )% | (1 )% |
| Florida | 211 | 56,622 | 268.4 | 207 | 53,493 | 258.4 | 2 % | 6 % | 4 % |
| East | 623 | 253,944 | 407.6 | 692 | 277,513 | 401.0 | (10)% | (8 )% | 2 % |
| Total | 3,124 | $1,154,328 | $369.5 | 3,458 | $1,165,768 | $337.1 | (10)% | (1 )% | 10 % |

For both the three and nine months ended September 30, 2014, we experienced increases in the average selling price of homes delivered in nearly all our markets. The improvements in each market's average selling price were 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 were more than offset by a decrease in the number of homes delivered of 13% and 10%, respectively, for the three and nine months ended September 30, 2014. The decline in home deliveries was primarily attributable to lower beginning backlog, which decreased 10% and 23% year-over-year, respectively, for the three and nine months ended September 30, 2014.

*Gross Margin*

Our gross margin from home sales for the 2014 third quarter decreased 160 basis points year-over-year and 60 basis points sequentially to 16.5%, due primarily to increases in land and construction costs and increased incentive levels offered to stimulate demand. Excluding interest in cost of sales and impairments, our gross margin from home sales was 20.2% for the 2014 third quarter, down 160 basis points versus 21.8% in the same quarter in 2013 (please see the table set forth below reconciling this non-GAAP measure to our gross margin from home sales).

Our gross margin from home sales for the nine months ended September 30, 2014 was 17.3%, down 60 basis points from 17.9% in the same period in the prior year. Gross margin from home sales excluding inventory impairments and interest in cost of sales for the nine months ended September 30, 2014 was 21.1%, down slightly from 21.2% for the same period in 2013.

The table set forth below is a reconciliation of our gross margin from home sales to gross margin from home sales excluding interest in cost of sales and inventory impairments, which is a non-GAAP measure.

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | *Gross Margin %* | 2013 | *Gross Margin %* | 2014 | *Gross Margin %* | 2013 | *Gross Margin %* |
| | (Dollars in thousands) | | | | | | | |
| Gross Margin | $67,682 | *16.6* % | $78,444 | *18.1* % | $200,452 | *17.3* % | $208,888 | *17.9* % |
| Less: Land Sale Revenues | (2,653) | | (25) | | (3,171) | | (1,832) | |
| Add: Land Cost of Sales | 1,985 | | 35 | | 2,507 | | 1,470 | |
| Gross Margin from Home Sales | 67,014 | *16.5* % | 78,454 | *18.1* % | 199,788 | *17.3* % | 208,526 | *17.9* % |
| Add: Inventory Impairments | - | | 350 | | 850 | | 350 | |
| Gross Margin from Home Sales Excluding Impairments [1] | 67,014 | *16.5* % | 78,804 | *18.2* % | 200,638 | *17.4* % | 208,876 | *17.9* % |
| Add: Interest in Cost of Sales | 14,966 | | 15,567 | | 43,212 | | 38,121 | |
| Gross Margin from Home Sales Excluding Impairments and Interest in cost of Sales [1] | $81,980 | *20.2* % | $94,371 | *21.8* % | $243,850 | *21.1* % | $246,997 | *21.2* % |

(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*

We recognized no inventory impairments during the three months ended September 30, 2014. Year-to-date through September 30, 2014, we recognized $0.9 million of inventory impairment charges related to two projects in our East segment. We recognized $0.4 million in impairments for the three and nine months ended September 30, 2013.

The following table sets forth the number of subdivisions and carrying value of the inventory we tested for impairment during the first three quarters of 2014 and 2013.

| Nine 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 |
|---|---|---|---|---|---|---|---|
| | (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 | - | - | - | - | - |
| Nine Month Total | 55 | $ 187,483 | $ 5,135 | $ 850 | $ 4,285 | 2 | 23 |
| | | | | | | | |
| 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 |
| Nine Month Total | 48 | $ 105,979 | $ 2,326 | $ 350 | $ 1,976 | 1 | 9 |

*Selling, General and Administrative Expenses*

Our SG&A expenses were $50.5 million for the quarter ended September 30, 2014, compared to $57.8 million for the same period in 2013. The decrease in SG&A expenses was largely attributable to $6.7 million in lower incentive-based compensation and post-retirement benefit expense for certain of our executive officers and a $2.3 million reduction in our legal expenses. These decreases were partially offset by an increase in marketing costs of $3.1 million, which related to a larger number of active communities as compared with the same period a year ago. Despite a decline in home sale revenues, the SG&A savings drove a reduction in our SG&A rate by 80 basis points from 13.3% in the 2013 third quarter to 12.5% in the 2014 third quarter.

For the nine months ended September 30, 2014, our SG&A expenses were $148.7 million, compared to $157.9 million for the same period in 2013. The decrease in SG&A expenses was largely attributable to $3.3 million in lower stock-based compensation expense, $11.5 million in lower incentive-based compensation and post-retirement benefits expense for certain of our executive officers and a $6.2 million reduction in our legal expenses. These improvements were partially offset by a year-over-year increase in marketing costs of $5.8 million incurred to support a larger number of active communities as compared with the same period a year ago. These year-over-year improvements drove an improvement in our SG&A rate by 60 basis points from 13.5% in 2013 to 12.9% in 2014.

*Early Extinguishment of Debt*

During the nine months ended September 30, 2014, we redeemed $250 million of senior notes due December 2014, which resulted in an early extinguishment of debt charge of $9.4 million. We funded the early redemption of our senior notes using proceeds from the January 2014 issuance of $250 million 10-year senior notes due 2024 and from selling a portion of our marketable securities. As discussed in our subsequent event footnote to our unaudited consolidated financial statements, on October 27, 2014 we redeemed $250 million of senior notes due July 2015. As a result, we will incur an early extinguishment of debt charge of approximately $8.7 million in the 2014 fourth quarter.

*Other-Than-Temporary Impairment of Marketable Securities*

During the three and nine months ended September 30, 2014, we recorded an impairment of marketable securities totaling $4.3 million for certain equity securities we sold subsequent to quarter end to fund the early retirement of $250 million of our 5 % senior notes due July 2015.

***Other Homebuilding Operating Data***

*Net New Orders:*

| | Three Months Ended September 30, 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 | 208 | $63,685 | $306.2 | 1.98 | 185 | $49,009 | $264.9 | 3.11 | 12 % | 30 % | 16 % | (36 )% |
| California | 164 | 78,245 | 477.1 | 2.80 | 91 | 37,654 | 413.8 | 2.81 | 80 % | 108 % | 15 % | (0 )% |
| Nevada | 155 | 55,766 | 359.8 | 2.91 | 119 | 39,276 | 330.1 | 2.87 | 30 % | 42 % | 9 % | 1 % |
| Washington | 63 | 22,578 | 358.4 | 2.33 | 75 | 24,596 | 327.9 | 2.17 | (16)% | (8 )% | 9 % | 7 % |
| West | 590 | 220,274 | 373.3 | 2.42 | 470 | 150,535 | 320.3 | 2.81 | 26 % | 46 % | 17 % | (14 )% |
| Colorado | 262 | 114,707 | 437.8 | 2.25 | 251 | 101,385 | 403.9 | 2.23 | 4 % | 13 % | 8 % | 1 % |
| Utah | 35 | 11,934 | 341.0 | 2.12 | 28 | 8,481 | 302.9 | 2.17 | 25 % | 41 % | 13 % | (2 )% |
| Mountain | 297 | 126,641 | 426.4 | 2.24 | 279 | 109,866 | 393.8 | 2.22 | 6 % | 15 % | 8 % | 1 % |
| Maryland | 55 | 25,518 | 464.0 | 1.31 | 50 | 23,459 | 469.2 | 0.94 | 10 % | 9 % | (1 )% | 39 % |
| Virginia | 49 | 24,878 | 507.7 | 2.04 | 48 | 22,262 | 463.8 | 1.55 | 2 % | 12 % | 9 % | 32 % |
| Florida | 90 | 34,274 | 380.8 | 1.88 | 77 | 19,363 | 251.5 | 2.23 | 17 % | 77 % | 51 % | (16 )% |
| East | 194 | 84,670 | 436.4 | 1.70 | 175 | 65,084 | 371.9 | 1.48 | 11 % | 30 % | 17 % | 15 % |
| Total | 1,081 | $431,585 | $399.2 | 2.20 | 924 | $325,485 | $352.3 | 2.25 | 17 % | 33 % | 13 % | (2 )% |

| | Nine Months Ended September 30, 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 | 661 | $193,516 | $292.8 | 2.32 | 508 | $129,469 | $254.9 | 3.28 | 30 % | 49 % | 15% | (29)% |
| California | 531 | 257,163 | 484.3 | 3.64 | 451 | 178,424 | 395.6 | 4.18 | 18 % | 44 % | 22% | (13)% |
| Nevada | 485 | 158,804 | 327.4 | 3.27 | 441 | 134,717 | 305.5 | 4.15 | 10 % | 18 % | 7 % | (21)% |
| Washington | 229 | 85,033 | 371.3 | 2.54 | 262 | 84,668 | 323.2 | 2.67 | (13)% | 0 % | 15% | (5 )% |
| West | 1,906 | 694,516 | 364.4 | 2.85 | 1,662 | 527,278 | 317.3 | 3.56 | 15 % | 32 % | 15% | (20)% |
| Colorado | 1,068 | 453,163 | 424.3 | 3.12 | 1,050 | 392,728 | 374.0 | 3.02 | 2 % | 15 % | 13% | 3 % |
| Utah | 133 | 44,425 | 334.0 | 2.64 | 137 | 43,644 | 318.6 | 1.98 | (3 )% | 2 % | 5 % | 33 % |
| Mountain | 1,201 | 497,588 | 414.3 | 3.06 | 1,187 | 436,372 | 367.6 | 2.85 | 1 % | 14 % | 13% | 7 % |
| Maryland | 200 | 95,390 | 477.0 | 1.44 | 252 | 115,425 | 458.0 | 1.51 | (21)% | (17)% | 4 % | (5 )% |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Virginia | 172 | 86,625 | 503.6 | 2.08 | 231 | 115,473 | 499.9 | 2.23 | (26)% | (25)% | 1 % | (7 )% |
| Florida | 257 | 87,047 | 338.7 | 1.96 | 243 | 62,163 | 255.8 | 2.14 | 6 % | 40 % | 32% | (8 )% |
| East | 629 | 269,062 | 427.8 | 1.78 | 726 | 293,061 | 403.7 | 1.89 | (13)% | (8 )% | 6 % | (6 )% |
| Total | 3,736 | $1,461,166 | $391.1 | 2.64 | 3,575 | $1,256,711 | $351.5 | 2.82 | 5 % | 16 % | 11% | (6 )% |

* Calculated as total net new orders in period ÷ average active communities during period ÷ number of months in period

For the three and nine months ended September 30, 2014, the dollar value of net new orders increased 33% and 16%, respectively, compared to the same periods in the prior year, as increases in our average price and active subdivision count more than offset minor declines in our monthly absorption rate. Our West segment showed the most improvement for both the quarter and nine-month periods, largely attributable to our California market and, to a lesser extent, our Arizona and Nevada markets. Significant increases in average active communities resulting from our substantial investment into these three markets over the past two years, coupled with appreciation in the average selling price of net new orders and a mix-shift to higher-priced communities, particularly in California and Arizona, drove a 46% and 32% improvement in the dollar value of net new orders for the three and nine months ended, respectively. In Florida, the significant increase in the dollar value of net new orders for both periods was due to a higher proportion of our new orders coming from the Orlando and South Florida markets, which have a much higher average selling price than our Jacksonville operation.

For the quarter ended September 30, 2014, our monthly sales absorption rate was down slightly to 2.2 sales per community from 2.3 in the prior year period. The monthly absorption rates declined the most in our Arizona market in our West segment and our Florida market in our East segment, which both have a relatively high exposure to first-time homebuyers, who have been slow to return to the market. For the nine months ended September 30, 2014, our East and West segments experienced year-over-year decreases in absorption pace while our Mountain segment showed improvement due to strength in our Colorado market and improvement in our Utah market.

*Active Subdivisions:*

| | September 30, | | % | |
|---|---|---|---|---|
| | 2014 | 2013 | Change | |
| Arizona | 36 | 19 | 89 | % |
| California | 21 | 11 | 91 | % |
| Nevada | 18 | 15 | 20 | % |
| Washington | 10 | 11 | (9 | )% |
| West | 85 | 56 | 52 | % |
| Colorado | 42 | 37 | 14 | % |
| Utah | 5 | 5 | 0 | % |
| Mountain | 47 | 42 | 12 | % |
| Maryland | 14 | 16 | (13 | )% |
| Virginia | 8 | 9 | (11 | )% |
| Florida | 16 | 11 | 45 | % |
| East | 38 | 36 | 6 | % |
| Total | 170 | 134 | 27 | % |
| Average for quarter ended | 164 | 137 | 20 | % |
| Average for the nine months ended | 157 | 141 | 11 | % |

At September 30, 2014, we had 170 active subdivisions, a 27% increase from 134 active subdivisions at September 30, 2013. This represents the fourth quarter in a row of year-over-year increases in active subdivisions. The year-over-year increase in active subdivisions at September 30, 2014 was driven primarily by significant land acquisition activity over the past two years, particularly in our West markets.

*Cancellation Rate:*

| | Three Months Ended September 30, | | Change in | Nine Months Ended September 30, | | Change in |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | Percentage | 2014 | 2013 | Percentage |
| Arizona | 28 % | 15 % | 13 % | 22 % | 16 % | 6 % |
| California | 29 % | 37 % | (8 )% | 23 % | 23 % | 0 % |
| Nevada | 22 % | 21 % | 1 % | 19 % | 20 % | (1 )% |
| Washington | 24 % | 21 % | 3 % | 19 % | 17 % | 2 % |
| West | 26 % | 23 % | 3 % | 21 % | 19 % | 2 % |
| Colorado | 28 % | 27 % | 1 % | 19 % | 20 % | (1 )% |
| Utah | 17 % | 30 % | (13 )% | 15 % | 19 % | (4 )% |
| Mountain | 27 % | 28 % | (1 )% | 19 % | 20 % | (1 )% |
| Maryland | 25 % | 37 % | (12 )% | 23 % | 26 % | (3 )% |
| Virginia | 30 % | 36 % | (6 )% | 25 % | 26 % | (1 )% |
| Florida | 24 % | 29 % | (5 )% | 23 % | 23 % | 0 % |
| East | 26 % | 33 % | (7 )% | 24 % | 25 % | (1 )% |
| Total | 26 % | 26 % | 0 % | 21 % | 21 % | 0 % |

Our cancellation rate for the three and nine months ended September 30, 2014 was unchanged from the same periods in the prior year at 26% and 21%, respectively. For the quarter ended September 30, 214, we experienced large declines in cancellation rates for our Utah and Maryland markets due to fewer customers changing lots, which are treated as cancellations and subsequent re-sales, and to a lesser extent various efforts to enhance the quality of our backlog, including reduced acceptance of contingencies and enhanced review of buyer creditworthiness before the acceptance of sales contracts. For the same period, the increase in our Arizona market was primarily due to potential buyers being unable to obtain financing, higher lot transfers and more contingent contracts being cancelled.

*Backlog:*

| | September 30, 2014 | | | 2013 | | | % Change | | |
|---|---|---|---|---|---|---|---|---|---|
| | Homes | Dollar Value | Average Price | Homes | Dollar Value | Average Price | Homes | Dollar Value | Average Price |
| | (Dollars in thousands) | | | | | | | | |
| Arizona | 290 | $96,456 | $332.6 | 215 | $58,313 | $271.2 | 35 % | 65 % | 23 % |
| California | 307 | 150,856 | 491.4 | 211 | 87,963 | 416.9 | 45 % | 71 % | 18 % |
| Nevada | 230 | 81,644 | 355.0 | 164 | 57,521 | 350.7 | 40 % | 42 % | 1 % |
| Washington | 67 | 25,302 | 377.6 | 72 | 25,119 | 348.9 | (7 )% | 1 % | 8 % |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| West | 894 | 354,258 | 396.3 | 662 | 228,916 | 345.8 | 35 % | 55 % | 15 % |
| Colorado | 600 | 268,205 | 447.0 | 587 | 227,335 | 387.3 | 2 % | 18 % | 15 % |
| Utah | 48 | 17,135 | 357.0 | 47 | 15,387 | 327.4 | 2 % | 11 % | 9 % |
| Mountain | 648 | 285,340 | 440.3 | 634 | 242,722 | 382.8 | 2 % | 18 % | 15 % |
| Maryland | 97 | 48,831 | 503.4 | 198 | 94,175 | 475.6 | (51)% | (48 )% | 6 % |
| Virginia | 95 | 47,663 | 501.7 | 168 | 84,867 | 505.2 | (43)% | (44 )% | (1 )% |
| Florida | 140 | 56,053 | 400.4 | 100 | 26,081 | 260.8 | 40 % | 115 % | 54 % |
| East | 332 | 152,547 | 459.5 | 466 | 205,123 | 440.2 | (29)% | (26 )% | 4 % |
| Total | 1,874 | $792,145 | $ 422.7 | 1,762 | $676,761 | $ 384.1 | 6 % | 17 % | 10 % |

At September 30, 2014 we had 1,874 homes in backlog with a total value of $792.1 million, representing an increase of 112 homes and $115.4 million from 1,762 homes in backlog with a total value of $676.8 million at September 30, 2013. The year-over-year increase in units in backlog marked our first year-over-year increase in units in backlog since the 2013 second quarter. The increase in average price of homes in backlog was driven by a year-over-year improvement of 11% in the average selling price of net new orders for the nine months ended September 30, 2014.

*Homes Completed or Under Construction (WIP lots):*

| | September 30, 2014 | 2013 | % Change |
|---|---|---|---|
| Unsold: | | | |
| Completed | 456 | 202 | 126 % |
| Under construction | 881 | 940 | (6 )% |
| Total unsold started homes | 1,337 | 1,142 | 17 % |
| Sold homes under construction or completed | 1,417 | 1,459 | (3 )% |
| Model homes | 242 | 229 | 6 % |
| Total homes completed or under construction | 2,996 | 2,830 | 6 % |

Our total homes completed or under construction increased 6% to 2,996 at September 30, 2014 from 2,830 at September 30, 2013, primarily resulting from our decision to start more speculative homes in the latter half of 2013 as well as our increased community count as of the end of the quarter. While spec homes were up 17% year-over-year, spec homes per active community were down 8% year-over-year as a result of our ongoing efforts to adjust spec home supply to meet current levels of demand.

*Lots Owned and Optioned (including homes completed or under construction):*

| | September 30, 2014 | | | September 30, 2013 | | | |
|---|---|---|---|---|---|---|---|
| | Lots Owned | Lots Optioned | Total | Lots Owned | Lots Optioned | Total | Total % Change |
| Arizona | 2,461 | 50 | 2,511 | 2,888 | 134 | 3,022 | (17 )% |
| California | 1,711 | 191 | 1,902 | 1,546 | 64 | 1,610 | 18 % |
| Nevada | 1,703 | 209 | 1,912 | 1,514 | 265 | 1,779 | 7 % |
| Washington | 936 | - | 936 | 518 | 154 | 672 | 39 % |
| West | 6,811 | 450 | 7,261 | 6,466 | 617 | 7,083 | 3 % |
| Colorado | 4,240 | 1,160 | 5,400 | 4,372 | 1,014 | 5,386 | 0 % |
| Utah | 662 | - | 662 | 546 | - | 546 | 21 % |
| Mountain | 4,902 | 1,160 | 6,062 | 4,918 | 1,014 | 5,932 | 2 % |
| Maryland | 403 | 389 | 792 | 522 | 325 | 847 | (6 )% |
| Virginia | 546 | 510 | 1,056 | 415 | 294 | 709 | 49 % |
| Florida | 917 | 254 | 1,171 | 716 | 521 | 1,237 | (5 )% |
| East | 1,866 | 1,153 | 3,019 | 1,653 | 1,140 | 2,793 | 8 % |
| Total | 13,579 | 2,763 | 16,342 | 13,037 | 2,771 | 15,808 | 3 % |

Our owned and optioned lot supply as of September 30, 2014 increased by 3% year-over-year. We increased the supply of lots in all of our markets, with the exception of our Arizona, Maryland and Florida markets, where demand has been more heavily impacted by market volatility. We believe that our current lot supply can support growth for our Company in future periods.

*Financial Services*

| | Three Months Ended September 30, 2014 | 2013 | Change Amount | % | Nine Months Ended September 30, 2014 | 2013 | Change Amount | % |
|---|---|---|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | | | | |
| **Financial services revenues** | | | | | | | | |
| Mortgage operations | $6,416 | $9,694 | (3,278) | (34)% | $18,887 | $29,232 | (10,345) | (35)% |
| Other | 4,283 | 4,588 | (305 ) | (7 )% | 12,526 | 11,440 | 1,086 | 9 % |
| Total financial services revenues | $10,699 | $14,282 | (3,583) | (25)% | $31,413 | $40,672 | (9,259 ) | (23)% |
| **Financial services pretax income** | | | | | | | | |
| Mortgage operations | $3,327 | $5,936 | (2,609) | (44)% | $10,387 | $18,790 | (8,403 ) | (45)% |
| Other | 2,635 | 2,310 | 325 | 14 % | 7,239 | 5,418 | 1,821 | 34 % |
| Total financial services pretax income | $5,962 | $8,246 | (2,284) | (28)% | $17,626 | $24,208 | (6,582 ) | (27)% |

Our financial services pretax income for the three and nine months ended September 30, 2014 was down 28% and 27%, respectively, from the same prior year periods. The decreases were primarily driven by our mortgage operations segment which had lower pretax income for both periods presented due to: (1) reduced volumes of loans locked and sold; (2) lower gains on loans locked and sold compared to a year ago; and (3) lower origination income due to fewer loan originations. These results were caused primarily by a more competitive mortgage market, which also resulted in lower capture rates. “Capture rate” is defined as the number of mortgage loans originated by our mortgage operations for our homebuyers as a percent of our total home closings.

The table below sets forth information for our mortgage operations relating to mortgage loans originated and capture rate.

| | Three Months Ended September 30, 2014 | 2013 | % or Percentage Change | Nine Months Ended September 30, 2014 | 2013 | % or Percentage Change |
|---|---|---|---|---|---|---|
| | (Dollars in thousands) | | | (Dollars in thousands) | | |
| **Total Originations (including transfer loans):** | | | | | | |
| Loans | 619 | 772 | (20 )% | 1,772 | 2,205 | (20 )% |
| Principal | $197,731 | $235,810 | (16 )% | $552,224 | $657,864 | (16 )% |
| **Capture Rate Data:** | | | | | | |
| Capture rate as % of all homes delivered | 56 % | 60 % | (4 )% | 56 % | 62 % | (6 )% |
| Capture rate as % of all homes delivered (excludes cash sales) | 61 % | 65 % | (4 )% | 61 % | 66 % | (5 )% |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Mortgage Loan Origination Product Mix:** | | | | | | |
| FHA loans | 14 % | 23 % | (9 )% | 15 % | 25 % | (10 )% |
| Other government loans (VA & USDA) | 32 % | 33 % | (1 )% | 30 % | 31 % | (1 )% |
| Total government loans | 46 % | 56 % | (10 )% | 45 % | 56 % | (11 )% |
| Conventional loans | 54 % | 44 % | 10 % | 55 % | 44 % | 11 % |
| | 100 % | 100 % | 0 % | 100 % | 100 % | 0 % |
| **Loan Type:** | | | | | | |
| Fixed rate | 95 % | 94 % | 1 % | 93 % | 97 % | (4 )% |
| ARM | 5 % | 6 % | (1 )% | 7 % | 3 % | 4 % |
| **Credit Quality:** | | | | | | |
| Average FICO Score | 736 | 735 | 0 % | 738 | 734 | 1 % |
| **Other Data:** | | | | | | |
| Average Combined LTV ratio | 87 % | 89 % | (2 )% | 86 % | 89 % | (3 )% |
| Full documentation loans | 100 % | 100 % | 0 % | 100 % | 100 % | 0 % |
| Non-full documentation loans | 0 % | 0 % | 0 % | 0 % | 0 % | 0 % |
| | | | | | | |
| **Loans Sold to Third Parties:** | | | | | | |
| Loans | 624 | 835 | (25 )% | 1,886 | 2,363 | (20 )% |
| Principal | $197,395 | $255,294 | (23 )% | $585,037 | $700,947 | (17 )% |

***Income Taxes***

For the three and nine months ended September 30, 2014 we had income tax expense of $8.5 million and $28.1 million, respectively, compared to an income tax benefit of $1.3 million and $188.2 million for the same periods in 2013, respectively. For the three and nine months end September 30, 2014, we recorded our income tax provision based on an effective income tax rate of 35.4% and 36.7%, respectively, while the significant benefit recognized in the nine months ended September 30, 2013 was due to the $187.6 million reversal of the valuation allowance on our deferred tax asset in the 2013 second quarter. We concluded that the reversal of a portion of our valuation allowance during the 2013 second quarter was appropriate after determining that it was more likely than not, after our evaluation of all relevant positive and negative evidence, that we would be able to realize most of our deferred tax assets within the applicable carry forward periods.

## CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The preparation of financial statements in conformity with accounting policies generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Management evaluates such estimates and judgments on an on-going basis and makes adjustments as deemed necessary. Actual results could differ materially from these estimates if conditions are significantly different in the future. Additionally, using different estimates or assumptions in our critical accounting estimates and policies could have a material impact to our consolidated financial statements. See "**Forward-Looking Statements**" below.

Our critical accounting estimates and policies have not changed from those reported in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2013.

## LIQUIDITY AND CAPITAL RESOURCES

We use our liquidity and capital resources to (1) support our operations, including the purchase of land, land development and construction of homes; (2) provide working capital; and (3) provide mortgage loans for our homebuyers. Our liquidity includes our cash and cash equivalents, marketable securities, revolving credit facility and mortgage repurchase facility. Additionally, we have an existing effective shelf registration statement that allows us to issue equity, debt or hybrid securities up to $1.25 billion.

We have marketable debt and equity securities. Our debt securities consist primarily of fixed and floating rate interest earning debt securities, which may include, among others, United States government and government agency debt and corporate debt. Our equity securities consist primarily of holdings in mutual fund securities, which invest mostly in debt securities. The remaining equity securities in our investment portfolio are holdings in corporate equities.

### Capital Resources

Our capital structure is primarily a combination of (1) permanent financing, represented by stockholders’ equity; (2) long-term financing, represented by our publicly traded 5 % senior notes due 2020, 5½% senior notes due 2024, and our 6% senior notes due 2043; (3) our revolving credit facility and (4) our mortgage repurchase facility. Because of our current balance of cash, cash equivalents, marketable securities, ability to access the capital markets, and available capacity under both our revolving credit facility and mortgage repurchase facility, we believe that our capital resources are adequate to satisfy our short and long-term capital requirements, including meeting future payments on our senior notes as they become due. See "Forward-Looking Statements" below.

We may from time to time seek to retire or purchase our outstanding senior notes through cash purchases, whether in open market purchases, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

**Senior Notes, Revolving Credit Facility and Mortgage Repurchase Facility**

*Senior Notes*. 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 most of our homebuilding segment subsidiaries. We believe that we are in compliance with the representations, warranties and covenants in the senior note indentures.

On January 15, 2014, we issued $250 million of 5½% Senior Notes due 2024 (the "5½% Notes"). The 5½% Notes, which pay interest semi-annually in arrears on January 15 and July 15 of each year, commencing July 15, 2014, are general unsecured obligations of MDC and rank equally and ratably with our other general unsecured and unsubordinated indebtedness. We received proceeds of $248.4 million, net of underwriting fees of $1.6 million.

On March 25, 2014, we redeemed our 5 % Senior Notes due December 2014. As a result of this transaction, we paid $259.1 million to extinguish $250 million in debt principal with a carrying value, including unamortized deferred financing costs, of $249.7 million and recorded a $9.4 million expense for loss on extinguishment of debt.

On October 27, 2014, we redeemed our 5 % Senior Notes due July 2015. As a result of this transaction, we paid $258.5 million to extinguish $250 million in debt principal with a carrying value, including unamortized deferred financing costs, of $249.8 million and recorded an $8.7 million expense for loss on extinguishment of debt.

*Revolving Credit Facility.* On December 13, 2013, we entered into an unsecured revolving credit facility ("Revolving Credit Facility") with a group of lenders which may be used for general corporate purposes. Our Revolving Credit Facility has an aggregate commitment amount of $450 million (the "Commitment") and a maturity date of December 13, 2018. Each lender may issue letters of credit in an amount up to 50% of its commitment. The facility permits an increase in the maximum Commitment amount to $1.0 billion upon our request, subject to receipt of additional commitments from existing or additional lenders. Interest rates on outstanding borrowings are determined by reference to a specified London Interbank Offered Rate (LIBOR), a specified federal funds effective rate or a specified prime rate, plus a margin that is determined based on our credit ratings and leverage ratio, as defined in the facility agreement. At any time at which our leverage ratio, as of the last day of the most recent calendar quarter, exceeds 55%, the aggregate principal amount of all consolidated senior debt borrowings outstanding may not exceed the borrowing base. There is no borrowing base requirement if our leverage ratio, as of the last day of the most recent calendar quarter, is 55% or less.

The Revolving Credit Facility is fully and unconditionally guaranteed, jointly and severally, by most of our homebuilding segment subsidiaries. The facility contains various representations, warranties and covenants that we believe are customary for agreements of this type. The financial covenants include a consolidated tangible net worth test and a leverage test, along with a consolidated tangible net worth covenant, all as defined in the facility agreement. A failure to satisfy the foregoing tests does not constitute an event of default, but can trigger a "term-out" of the facility. A breach of the consolidated tangible net worth covenant (but not the consolidated tangible net worth test) would result in an event of default.

The Revolving Credit Facility is subject to acceleration upon certain specified events of default, including breach of the consolidated tangible net worth covenant, failure to make timely payments, breaches of certain representations or covenants, failure to pay other material indebtedness, or another person becoming beneficial owner of 50% or more of our outstanding common stock. We believe we were in compliance with the representations, warranties and covenants included in the Revolving Credit Facility as of September 30, 2014.

As of September 30, 2014, we had $10 million in borrowings and $16.6 million in letters of credit outstanding under the Revolving Credit Facility.

*Mortgage Repurchase Facility.* HomeAmerican has a Master Repurchase Agreement, (the "Mortgage Repurchase Facility"), with U.S. Bank National Association ("USBNA"). This agreement was amended on September 19, 2014 and extended until September 18, 2015. 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 the maximum aggregate commitment from $50 million to $80 million from December 31, 2013 through January 30, 2014, had a maximum aggregate commitment of $50 million as of September 30, 2014. At September 30, 2014 and December 31, 2013, we had $31.8 million and $63.1 million, respectively, of mortgage loans that we were obligated to repurchase under our Mortgage Repurchase Facility. Mortgage loans that we are obligated to repurchase under the Mortgage Repurchase Facility are accounted for as a debt financing arrangement and are reported as mortgage repurchase facility in the consolidated balance sheets. Advances under the Mortgage Repurchase Facility carry a price range that is LIBOR-based. The Mortgage Repurchase Facility contains various representations, warranties and affirmative and negative covenants that we believe are customary for agreements of this type. The negative covenants include, among others, (i) a minimum Adjusted Tangible Net Worth requirement, (ii) a maximum Adjusted Tangible Net Worth Ratio, (iii) a minimum 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 September 30, 2014.

**Dividends**

During the three and nine months ended September 30, 2014, we paid a dividend of $0.25 per share and dividends totaling $0.75 per share, respectively. There were no dividends paid during the three or nine months ended September 30, 2013 as a $1.00 accelerated dividend was paid in the fourth quarter of 2012 in lieu of declaring and paying regular quarterly dividends in calendar year 2013.

**MDC Common Stock Repurchase Program**

At September 30, 2014, we were authorized to repurchase up to 4,000,000 shares of our common stock. We did not repurchase any shares of our common stock during the nine months ended September 30, 2014.

**Consolidated Cash Flow**

During the nine months ended September 30, 2014, we used $173.3 million in cash from operating activities, primarily resulting from increasing our inventory from December 31, 2013, which resulted in the use of $279.9 million in cash. This use of cash was partially offset by a $34.4 million decrease in mortgage loans held-for-sale, net income of $48.5 million, and the use of net operating loss carryforwards to reduce our current taxes payable.

During the nine months ended September 30, 2014, we generated $125.6 million of cash from investing activities, primarily attributable to $537.4 million in proceeds from the sale or maturity of marketable securities, partially offset by the purchase of $409.8 million of marketable securities.

During the nine months ended September 30, 2014, we used $68.6 million in cash from financing activities, primarily attributable to $259.1 million in cash used to redeem our 5 % Senior Notes due December 2014, repayments totaling $31.3 million on our mortgage repurchase facility and dividend payments totaling $36.6 million, which was partially offset by the issuance of $250 million of our 10-year 5½% Senior Notes due 2024 and a $10 million draw on our homebuilding line of credit.

**Off-Balance Sheet Arrangements**

*Lot Option Purchase Contracts.* In the ordinary course of business, we enter into lot option purchase contracts in order to procure lots for the construction of homes. Lot option contracts enable us to control lot positions with a minimal capital investment, which substantially reduces the risks associated with land ownership and development. At September 30, 2014, we had deposits of $14.8 million in the form of cash and $2.8 million in the form of letters of credit that secured option contracts to purchase 2,763 lots for a total estimated purchase price of $220.8 million.

*Surety Bonds and Letters of Credit.* At September 30, 2014, we had issued and outstanding surety bonds and letters of credit totaling $135.7 million and $34.9 million, respectively, including $18.2 million in letters of credit issued by

HomeAmerican. The estimated cost to complete obligations related to these bonds and letters of credit was approximately $56.0 million and $7.3 million, respectively. We expect that the obligations secured by these performance bonds and letters of credit generally will be performed in the ordinary course of business and in accordance with the applicable contractual terms. To the extent that the obligations are performed, the related performance bonds and letters of credit should be released and we should not have any continuing obligations. However, in the event any such performance bonds or letters of credit are called, our indemnity obligations could require us to reimburse the issuer of the performance bond or letter of credit.

We have made no material guarantees with respect to third-party obligations.

**IMPACT OF INFLATION, CHANGING PRICES AND ECONOMIC CONDITIONS**

The impact of inflation and changing prices have not changed materially from the disclosure in our December 31, 2013 Annual Report on Form 10-K.

## OTHER

### Forward-Looking Statements

Certain statements in this Quarterly Report on Form 10-Q, 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,” “belie “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. Additionally, information about issues that could lead to material changes in performance and risk factors that have the potential to affect us is contained under the caption “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013 and Item 1A of Part II of this Quarterly Report on Form 10-Q.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our cash and investment policy and strategy is to achieve an appropriate investment return while preserving principal and managing risk. Our cash and cash equivalents may include immediately available commercial bank deposits, commercial paper, money market funds, certificates of deposit and time deposits. Our marketable securities contain both debt and equity instruments, held directly or through mutual funds. Our debt securities consist primarily of fixed and floating rate interest earning debt securities, which may include, among others, United States government and government agency debt and corporate debt. Our equity securities consist primarily of holdings in mutual fund securities, which invest mostly in debt securities. The remaining equity securities in our investment portfolio are holdings in corporate equities. The market value and/or income derived from our debt and equity securities can be negatively impacted by a number of market risk factors, including changes in interest rates, general economic conditions and equity markets. As of September 30, 2014, we had marketable securities in unrealized loss positions totaling $6.5 million, against which we recorded impairments totaling $4.3 million. For the remaining marketable securities in unrealized loss positions totaling $2.2 million, there can be no assurances that the cost basis of these securities will be recovered in the future. If we elect to sell, or are otherwise were required to sell these securities, we could be required to record losses if the market values do not increase prior to any sales. Such losses, if any, would be recorded as a component of our results of operations.

We are exposed to market risks related to fluctuations in interest rates on mortgage loans held-for-sale, mortgage interest rate lock commitments and debt. Derivative instruments utilized in the normal course of business by HomeAmerican include interest rate lock commitments and forward sales of mortgage-backed securities, which are used to manage the price risk on fluctuations in interest rates on our mortgage loans in inventory and interest rate locked commitments to originate mortgage loans. Such contracts are the only significant financial derivative instruments utilized by MDC. HomeAmerican’s mortgage loans in process for which a rate and price commitment had been made to a borrower that had not closed at September 30, 2014 had an aggregate principal balance of approximately $68.8 million, all of which were under interest rate lock commitments at an average interest rate of 3.86%. In addition, HomeAmerican had mortgage loans held-for-sale with an aggregate principal balance of $56.7 million at September 30, 2014, of which $5.8 million had not yet been committed to a mortgage purchaser and had an average interest rate of 3.81%. In order to hedge the changes in fair value of interest rate lock commitments and mortgage loans held-for-sale which had not yet been committed to a mortgage purchaser, HomeAmerican had forward sales of securities totaling $49.5 million and $95.5 million at September 30, 2014 and 2013, respectively.

HomeAmerican provides mortgage loans that generally are sold forward and subsequently delivered to a third-party purchaser between 15 and 40 days. Forward commitments are used for non-trading purposes to sell mortgage loans and hedge price risk due to fluctuations in interest rates on rate-locked mortgage loans in process that have not closed. Due to this economic hedging philosophy, the market risk associated with these mortgages is limited. 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 the consolidated statements of operations with an offset to either derivative assets or liabilities, depending on the nature of the change.

We utilize our Revolving Credit Facility, our Mortgage Repurchase Facility and senior notes in our financing strategy. For fixed rate debt, changes in interest rates generally affect the fair value of the debt instrument, but not our earnings or cash flows. We do not have an obligation to prepay our senior notes prior to maturity and, as a result, interest rate risk and changes in fair value do not have an impact on our financial position, results of operations or cash flows. See "**Forward-Looking Statements**" above.

## Item 4. Controls and Procedures

(a) *Conclusion regarding the effectiveness of disclosure controls and procedures* - An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was performed under the supervision, and with the participation, of our management, including the Chief Executive Officer and the Chief Financial Officer. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective at September 30, 2014.

(b) *Changes in internal control over financial reporting* - There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**M.D.C. HOLDINGS, INC.**

**FORM 10-Q**

## PART II

### Item 1. 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 1A. Risk Factors

There have been no significant changes in the risk factors previously identified as being attendant to our business in our Annual Report on Form 10-K for the year ended December 31, 2013. For a more complete discussion of other risk factors that affect our business, see "Risk Factors" in our Form 10-K for the year ended December 31, 2013, which include the following:

***The homebuilding industry is cyclical and affected by changes in general economic, real estate and other business conditions that could adversely affect our business or financial results.***

***A deterioration in homebuilding industry conditions or in the broader economic conditions, including government shutdowns and debt ceiling debates, could have adverse effects on our business and financial results.***

***Increased competition levels in the homebuilding and mortgage lending industries could result in lower net home orders, deliveries and decreases in the average selling prices of sold and delivered homes, which would have a negative impact on our home sale revenues and results of operations.***

***If land is not available at reasonable prices or terms, our homes sales revenue and results of operations could be negatively impacted and/or we could be required to scale back our operations in a given market.***

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

***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, and the duration and ultimate severity of the effects are uncertain.***

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

***Increases in our cancellations could have a negative impact on our gross margin from home sales and home sale revenues.***

***A decline in the market value of our homes or carrying value of our land would have a negative impact on our results of operations and financial position.***

***Natural disasters could cause an increase in home construction costs, as well as delays, and could negatively impact our results of operations.***

***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 our results of operations, financial position and/or cash flows.***

***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.***

***In the ordinary course of business, we are required to obtain surety bonds, the unavailability of which could adversely affect our results of operations and/or cash flows.***

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

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

***Further uncertainty in the mortgage lending industry, including repurchase requirements associated with HomeAmerican's sale of mortgage loans, could negatively impact our results of operations.***

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

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

***The interests of certain controlling shareholders may be adverse to investors.***

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

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company did not repurchase any shares during the three and nine months ended September 30, 2014. Additionally, there were no sales of unregistered equity securities during the period.

## Item 3. Defaults Upon Senior Securities

Not applicable.

## Item 4. Mine Safety Disclosures

Not applicable.

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

| | |
|---|---|
| 10.1 | Tenth Amendment to Master Repurchase Agreement between HomeAmerican Mortgage Corporation, as Seller, and U.S. Bank National Association, as Agent and Buyer, dated as of September 19, 2014 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed September 22, 2014). * |
| 31.1 | Certification of Chief Executive Officer required by 17 CFR 240.13a-14(a), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer required by 17 CFR 240.13a-14(a), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer required by 17 CFR 240.13a-14(b), pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer required by 17 CFR 240.13a-14(b), pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following financial statements, formatted in XBRL: (i) Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013, (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2014 and 2013, (iii) Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2014 and 2013; and (iv) Notes to the Unaudited Consolidated Financial Statements, tagged as blocks of text. |

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* Incorporated by reference.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: October 30, 2014

**M.D.C. HOLDINGS, INC.**
(Registrant)

By: /s/ John M. Stephens
John M. Stephens

*Senior Vice President, Chief Financial Officer and Principal Accounting Officer (principal financial officer and duly authorized officer)*

**INDEX TO EXHIBITS**

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