MDC HOLDINGS INC
Form 10-K
February 05, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

OR

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

For the Transition period from _____ to _____

Commission file number 1-08951

M.D.C. HOLDINGS, INC.

(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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $.01 par value	**New York Stock Exchange**
5 % Senior Notes due December 2014	**New York Stock Exchange**
5 % Senior Notes due July 2015	**New York Stock Exchange**
5 % Senior Notes due January 2020	**New York Stock Exchange**
6% Senior Notes due January 2043	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes X No __

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X_ No__

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

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

Large Accelerated Filer_X_ Accelerated Filer___

Non-Accelerated Filer __ (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 X

As of June 30, 2013, the aggregate market value of the Registrants' common stock held by non-affiliates of the Registrants was $1.3 billion based on the closing sales price of $32.51 per share as reported on the New York Stock Exchange on June 28, 2013.

As of December 31, 2013, the number of shares outstanding of Registrant's common stock was 48,788,887.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of part III of this Form 10-K are incorporated by reference from the Registrant's 2013 definitive proxy statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant's fiscal year.

M.D.C. HOLDINGS, INC.

FORM 10-K

For the Year Ended December 31, 2013

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M.D.C. HOLDINGS, INC.

FORM 10-K

PART I

Forward-Looking Statements

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

Item 1. ***Business***

(a) *General Development of Business*

M.D.C. Holdings, Inc. is a Delaware corporation. We refer to M.D.C. Holdings, Inc. as the “Company,” “MDC,” “we” or “our” in this Annual Report on Form 10-K, and these designations include our subsidiaries unless we state otherwise. We have two primary operations, homebuilding and financial services. Our homebuilding operations consist of wholly-owned subsidiary companies that generally purchase finished lots or develop lots to the extent necessary for the construction and sale primarily of single-family detached homes to first-time and first-time move-up homebuyers under the name “Richmond American Homes.” Our homebuilding operations are comprised of various homebuilding divisions that we consider to be our operating segments. For financial reporting, we have aggregated our homebuilding operating segments into reportable segments as follows: (1) West (Arizona, California, Nevada and Washington); (2) Mountain (Colorado and Utah); and (3) East (Virginia, Florida, Illinois and Maryland, which includes Pennsylvania, Delaware, and New Jersey).

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

(b) *Available Information*

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

(c) *Financial Information About Industry Segments*

Note 3 to the Consolidated Financial Statements contains information regarding our reportable segments for each of the years ended December 31, 2013, 2012 and 2011.

(d) *Narrative Description of Business*

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

For 2013, the percentage of our home deliveries and home sale and land sale revenues by state were as follows:

	Percentage of Deliveries		Percentage of Home Sale Revenues	
Arizona	13	%	10	%
California	14	%	15	%
Nevada	13	%	10	%
Washington	7	%	7	%
West	47	%	42	%
Colorado	27	%	29	%
Utah	4	%	4	%
Mountain	31	%	33	%
Maryland	8	%	10	%
Virginia	8	%	11	%
Florida	6	%	4	%
East	22	%	25	%
Total	100	%	100	%

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

Homebuilding Operations

Operating Divisions. The primary functions of our homebuilding segments include land acquisition and development, home construction, sales and marketing, and customer service. Operating decisions are made by our local management teams under the oversight of our Chief Operating Decision Makers (“CODMs”), defined as our Chief Executive Officer and Chief Operating Officer. Our organizational structure (i.e., the grouping and reporting of divisions) changes based upon the current needs of the Company. We had 10 active homebuilding operating divisions at the end of each year ended December 31, 2013, 2012 and 2011.

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

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

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

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

During 2011 and 2012, we reorganized our finance and accounting operations, focusing on the centralization of certain back office functions. In addition, we reorganized our sales and marketing activities to (1) better communicate the value of our homes to our prospective homebuyers, thereby giving us the opportunity to reduce incentives and increase sales absorptions, (2) better align the compensation structure for our sales organization with Company goals, and (3) simplify our processes to reduce overhead expenses.

Housing. Generally, our homebuilding subsidiaries build single-family detached homes in a number of standardized series, designed to provide variety in the size and style of homes for our potential homebuyers. In certain markets our homebuilding subsidiaries build and sell attached townhome product. Within each series for our single-family detached homes, our homebuilding subsidiaries build several different floor plans offering standard and optional features (such as upgraded appliances, cabinetry, flooring, etc.). Differences in sales prices of similar models from market-to-market depend primarily upon homebuyer demand, home prices offered by our competitors, market conditions (such as home inventory supply levels), location, optional features and design specifications. The series of homes offered at a particular location is based on perceived customer preferences, lot size, area demographics and, in certain cases, the requirements of major land sellers and local municipalities. We monitor levels of inventories of unsold started homes in our markets in order to increase returns based on market demand. Unsold started homes in various stages of completion allow us to meet the immediate and near-term demands of prospective homebuyers.

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

In their option contracts, our homebuilding subsidiaries generally obtain the right to purchase lots in consideration for an option deposit in the form of cash or letters of credit. In the event they elect not to purchase the lots within a specified period of time, they may be required to forfeit the option deposit. Our option contracts generally do not contain provisions requiring our specific performance.

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

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

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

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

Backlog. At December 31, 2013 and 2012, homes under contract but not yet delivered ("backlog") totaled 1,262 and 1,645, respectively, with an estimated sales value of $506 million and $579 million, respectively. We anticipate that homes in backlog at December 31, 2013 generally will close during 2014 under their existing home order contracts or through the replacement of an existing contract with a new home order contract. The estimated backlog sales value at December 31, 2013 may be impacted by, among other things, subsequent home order cancellations and incentives provided, and options and upgrades selected after December 31, 2013. See "**Forward-Looking Statements**" above.

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

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

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

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

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

Financial Services Operations

Mortgage Lending Operations

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

HomeAmerican is authorized to originate Federal Housing Administration-insured (“FHA”), Veterans Administration-guaranteed (“VA”), Federal National Mortgage Association (“Fannie Mae”), Federal Home Loan Mortgage Corporation (“Freddie Mac”) (together “the government sponsored entities”) and private investor mortgage loans. HomeAmerican also is an authorized loan servicer for Fannie Mae and Freddie Mac and, as such, is subject to the rules and regulations of these entities.

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

Pipeline. HomeAmerican’s mortgage loans in process for which a rate and price commitment had been made to a borrower that had not closed (the “locked pipeline”) at December 31, 2013 and 2012 had an aggregate principal balance of approximately $69.8 million and $50.8 million, respectively, and were under interest rate lock commitments at an average interest rate of 4.13% and 3.26%, respectively.

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

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

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

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

Insurance Operations

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

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

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

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

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

Title Operations

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

Employees.

The table below summarizes the approximate number of employees for our combined Homebuilding, combined Financial Services and Corporate segments at December 31, 2013 and 2012.

	December 31,	
	2013	2012
Homebuilding	800	665
Financial Services	99	84

Corporate	212	171
Total	1,111	920

Item 1A. Risk Factors.

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.

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

- employment levels;
- availability of financing for homebuyers;
- interest rates;
- consumer confidence;
- levels of new and existing homes for sale;
- demographic trends; and
- housing demand.

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

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

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

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

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

Our financial services business is closely related to our homebuilding business, as it originates mortgage loans principally to purchasers of the homes we build. A decrease in the demand for our homes because of the foregoing matters may also adversely affect the financial results of this segment of our business. An increase in the default rate on the mortgages we originate may adversely affect our ability to sell the mortgages or the pricing we receive upon the sale of mortgages or may increase our potential exposure regarding those mortgage loan sales.

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.

The recovery in the housing market has been negatively impacted by the continuing effects of the recent recession, including high unemployment rates, high levels of foreclosures and homeowners in default or with negative equity under their current mortgages, more stringent mortgage loan underwriting standards and difficulty in customers' ability to qualify for mortgage loans.

In the event of another downturn in the homebuilding and mortgage lending industries, or if the national economy weakens as a result of a decline in consumer confidence, government shutdowns, debt ceiling debates or other causes, we could experience declines in the market value of our inventory and demand for our homes, which could have a significant negative impact on our gross margin from home sales and financial and operating results.

Monetary policy tightening and tapering of bond purchases by the Federal Reserve could have an adverse effect on interest rates, including mortgage interest rates, equity markets and consumer confidence, which could have a material adverse effect on the homebuilding industry and our results of operations.

Additionally, as a result of recent economic circumstances, we may be subject to increased counterparty risks, which may include, among others, banks under our credit facilities and mortgage purchasers who may not be willing or able to perform on obligations to us. To the extent a third-party is unable to meet its obligations to us, our financial position, results of operations and/or cash flows could be negatively impacted.

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

Increased competition levels in the homebuilding and mortgage lending industries could 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.

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

Through our mortgage lending subsidiary, HomeAmerican, we also compete with numerous banks and other mortgage bankers and brokers, many of which are larger than us and may have greater financial resources than we do. Competitive factors include pricing, mortgage loan terms, underwriting criteria and customer service. To the extent that we are unable to adequately compete with other companies that originate mortgage loans, total revenue and the results of operations from our Mortgage operations may be negatively impacted.

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.

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

The residential construction industry experiences labor and material shortages from time to time, including: work stoppages; labor disputes; shortages in qualified trades people; lack of availability of adequate utility infrastructure and services; our need to rely on local subcontractors who may not be adequately capitalized or insured; and delays in availability, or fluctuations in prices, of building materials. These labor and material shortages can be more severe during periods of strong demand for housing or during periods in which the markets where we operate experience natural disasters that have a significant impact on existing residential and commercial structures. Additionally, we could experience labor shortages as a result of subcontractors going out of business or leaving the residential construction market due to low levels of housing production and volumes. Any of these circumstances could give rise to delays in the start or completion of our residential communities, increase the cost of developing one or more of our residential communities and/or increase the construction cost of our homes. To the extent that market conditions prevent the recovery of increased costs, including, among other things, subcontracted labor, finished lots, building materials, and other resources, through higher selling prices, our gross margin from home sales and results of operations could be adversely affected.

Increased costs of lumber, framing, concrete, steel and other building materials could cause increases in construction costs. We generally are unable to pass on increases in construction costs to customers who have already entered into sales contracts, as those sales contracts fix the price of the homes at the time the contracts are signed, which may be in advance of the construction of the home. Sustained increases in construction costs may, over time, erode our gross margin from home sales, particularly if pricing competition restricts our ability to pass on any additional costs of materials or labor, thereby decreasing our gross margin from home sales.

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.

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

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

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

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

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

If interest rates increase, the costs of owning a home may be affected and could result in further reductions in the demand for our homes. Similarly, potential changes to the tax code with respect to deduction of home mortgage interest payments or other changes may decrease affordability of and demand for homeownership.

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

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

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

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

Increased levels of home order cancellations could have a negative impact on our home sale revenues and financial and operating results in future reporting periods.

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.

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

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

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

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.

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

The availability of additional capital, whether from private capital sources or the public capital markets, fluctuates as our financial condition and market conditions in general change. There may be times when the private capital markets and the public debt or equity markets lack sufficient liquidity or when our securities cannot be sold at attractive prices, in which case we would not be able to access capital from these sources. In addition, a weakening of our financial condition or deterioration in our credit ratings could adversely affect our ability to obtain necessary funds. Even if financing is available, it could be costly or have other adverse consequences.

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

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

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

From time to time, various municipalities in which our homebuilding subsidiaries operate restrict or place moratoria on the availability of utilities, including water and sewer taps. Additionally, certain jurisdictions in which our homebuilding subsidiaries operate have proposed or enacted "slow growth" or "no growth" initiatives and other measures that may restrict the number of building permits available in any given year. These initiatives or other slow or no growth measures could reduce our ability to open new subdivisions and build and sell homes in the affected markets and may create additional costs and administration requirements, which in turn could negatively impact our future home sales and results of operations.

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

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

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

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

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

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

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

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

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

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.

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

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

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

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

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

The interests of certain controlling shareholders may be adverse to investors

Larry A. Mizel, David D. Mandarich and other of our affiliates beneficially own, directly or indirectly, in the aggregate, approximately 26% of our common stock. To the extent they and their affiliates vote their shares in the same manner, their combined stock ownership may effectively give them the power to influence the election of members of our board of directors and other matters reserved for our shareholders. Circumstances may occur in which the interest of these shareholders could be in conflict with your interests. In addition, such persons may have an interest in pursuing transactions that, in their judgment, enhance the value of their equity investment in us, even though such transactions may involve risks to you.

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

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

Item 1B. Unresolved Staff Comments.

None

Item 2. *Properties.*

Our corporate office is located at 4350 South Monaco Street, Denver, Colorado 80237, where we lease office space in a 144,000 square foot office building. In some markets, our homebuilding divisions and other MDC subsidiaries lease additional office space. The table below outlines the number of office facilities that are leased and the approximate square footage leased in each market at December 31, 2013. While currently we are satisfied with the suitability and capacity of our office locations, we continue to evaluate them in view of market conditions and the size of our operations.

	Number of Leased Facilities	Total Square Footage Leased
Arizona	2	18,000
California	2	19,000
Colorado	5	145,000
Florida	2	11,000
Maryland	2	18,000
Nevada	1	10,000
Utah	1	6,000
Virginia	3	13,000
Washington	2	22,000
Total	20	262,000

Item 3. *Legal Proceedings.*

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

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

At December 31, 2013, we had 603 shareholders of record. The shares of our common stock are traded on the New York Stock Exchange. The following table sets forth, for the periods indicated, the closing price ranges of our common stock.

	Three Months Ended			
	March 31	June 30	September 30	December 31
2013				
High	$41.76	$39.71	$ 34.00	$ 32.24
Low	35.90	31.56	27.12	27.81
2012				
High	$27.20	$32.67	$ 40.15	$ 40.62
Low	17.77	23.76	30.81	33.11

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

	Date of Declaration	Date of Payment	Dividend per Share	Total Dividends Paid
2012				
First Quarter	01/23/12	02/22/12	$ 0.25	$ 11,994
Second Quarter	04/23/12	05/23/12	0.25	11,996
Third Quarter	07/24/12	08/22/12	0.25	12,056
Fourth Quarter	10/22/12	11/21/12	0.25	12,172
Accelerated payment of 2013 dividends	12/13/12	12/28/12	1.00	48,697
			$ 2.00	$ 96,915

There were no shares of MDC common stock repurchased during the years ended December 31, 2013, 2012 or 2011. At December 31, 2013, we were authorized to repurchase up to 4,000,000 shares of our common stock.

Performance Graph

Set forth below is a graph comparing the yearly change in the cumulative total return of MDC's common stock with the cumulative total return of the Standard & Poor's 500 Stock Index and with that of a peer group of other homebuilders over the five-year period ending on December 31, 2013, weighted as of the beginning of that period.

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

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

COMPARISON OF CUMULATIVE TOTAL RETURN
OF MDC COMMON STOCK, THE S&P 500 STOCK INDEX
AND A SELECTED PEER GROUP

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Item 6. ***Selected Financial Data***

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

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(Dollars in thousands, except per share amounts)				
Income Statement Data					
Home sale and land sale revenues	$1,629,175	$1,156,142	$817,023	$926,905	$867,784
Financial services revenues	51,259	46,881	26,086	30,473	28,318
Total revenues	$1,680,434	$1,203,023	$843,109	$957,378	$896,102
Homebuilding pretax income (loss)	$100,323	$32,617	$(110,628)	$(80,896)	$(113,289)
Financial services pretax income	29,502	28,498	3,156	10,295	5,954
Total income (loss) before income taxes	$129,825	$61,115	$(107,472)	$(70,601)	$(107,335)
Net income (loss) (1)(2)(3)	$314,385	$62,699	$(98,390)	$(64,770)	$24,679
Basic earnings (loss) per share	$6.39	$1.29	$(2.12)	$(1.40)	$0.52
Diluted earnings (loss) per share	$6.34	$1.29	$(2.12)	$(1.40)	$0.52
Weighted Average Common Shares Outstanding:					
Basic	48,453,119	47,660,629	46,796,334	46,627,815	46,537,092
Diluted	48,831,785	47,834,156	46,796,334	46,627,815	46,919,362
Balance Sheet Data					
Cash and cash equivalents	$199,338	$160,095	$343,361	$572,225	$1,234,252
Marketable securities	$588,067	$551,938	$519,943	$968,729	$327,944
Total inventories	$1,411,661	$1,002,521	$806,052	$787,659	$523,184
Total assets	$2,595,449	$1,945,441	$1,858,725	$2,547,769	$2,429,308
Senior notes, net (3)	$1,095,620	$744,842	$744,108	$1,242,815	$997,991
Mortgage repurchase facility	$63,074	$76,327	$48,702	$25,434	$29,115
Stockholders' equity	$1,213,249	$880,897	$868,636	$983,683	$1,073,146
Stockholders' equity per common share	$24.87	$18.09	$18.11	$20.87	$22.82
Cash dividends declared per share (4)	$-	$2.00	$1.00	$1.00	$1.00
Operational Data					
Homes delivered (units)	4,710	3,740	2,762	3,245	3,013
Average selling price	$345	$308	$292	$284	$278
Net new orders (units)	4,327	4,342	2,887	3,261	3,306
Homes in backlog at period end (units)	1,262	1,645	1,043	842	826
Estimated backlog sales value at period end	$506,000	$579,000	$330,000	$269,000	$265,000
Estimated average selling price of homes in backlog	$401	$352	$316	$320	$321

Active subdivisions at period-end	146	148	187	148	133

(1) Net income for the year ended December 31, 2009 includes the income tax benefit of being able to carry back $142.6 million of net operating losses due to the expanded NOL carryback provisions contained in the Worker, Homeownership, and Business Assistance Act of 2009, signed into law on November 6, 2009.

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

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

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

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

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

	Year Ended December 31,		
	2013	2012	2011
	(Dollars in thousands, except per share amounts)		
Homebuilding:			
Home sale revenues	$1,626,707	$1,150,998	$805,164
Land sale revenues	2,468	5,144	11,859
Total home and land sale revenues	1,629,175	1,156,142	817,023
Home cost of sales	(1,336,978)	(973,120)	(686,661)
Land cost of sales	(1,961)	(4,823)	(10,796)
Inventory impairments	(919)	(1,105)	(12,965)
Total cost of sales	(1,339,858)	(979,048)	(710,422)
Gross margin	289,317	177,094	106,601
Gross margin %	17.8%	15.3%	13.0%
Selling, general and administrative expenses	(213,283)	(167,295)	(179,105)
Interest income	26,938	23,398	26,068
Interest expense	(1,726)	(808)	(20,842)
Other income (expense)	(923)	228	(43,350)
Homebuilding pretax income (loss)	100,323	32,617	(110,628)
Financial Services:			
Revenues	51,259	46,881	26,086
Expenses	(25,271)	(21,645)	(26,306)
Interest and other income	3,514	3,262	3,376
Financial services pretax income	29,502	28,498	3,156
Income before income taxes	129,825	61,115	(107,472)
Benefit from income taxes	184,560	1,584	9,082
Net income (loss)	$314,385	$62,699	$(98,390)
Earnings (loss) per share:			
Basic	$6.39	$1.29	$(2.12)
Diluted	$6.34	$1.29	$(2.12)
Weighted average common shares outstanding:			
Basic	48,453,119	47,660,629	46,796,334

Diluted	48,831,785	47,834,156	46,796,334
Dividends declared per share	$-	$2.00	$1.00
Cash provided by (used in):			
Operating Activities	$(269,549)	$(108,819)	$(80,284)
Investing Activities	$(30,402)	$(21,781)	$404,264
Financing Activities	$339,194	$(52,666)	$(552,844)

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EXECUTIVE SUMMARY

Overview

For the year ended December 31, 2013, we improved in most operating metrics. Significant increases in volume and average selling prices of homes delivered, in addition to notable improvements in our homebuilding selling, general and administrative ("SG&A") expenses as a percentage of home sale revenues ("SG&A rate"), drove top and bottom line growth for our Homebuilding operations. However, the temporary spike in mortgage interest rates from historically low levels, significant year-over-year home price increases, and the economic uncertainty created by the government shutdown, debt ceiling debates, and the discussion surrounding tapering of federal stimulus, slowed housing demand during the second half of 2013. These factors, combined with a lower average active community count, resulted in a slight year-over-year decline in our net new orders and a year-over-year decrease in ending backlog despite a year-over-year increase in our monthly absorption pace per community. We continue to believe that a solid housing recovery is ongoing, supported by attractive affordability levels, a historically low inventory of available-for-sale housing, and improving economic conditions.

For the year ended December 31, 2013, we reported net income of $314.4 million, or $6.34 per diluted share, compared to net income of $62.7 million, or $1.29 per diluted share for the year earlier period. The improvement in our performance was driven primarily by a 41% increase in home sale revenues, a 240 basis point improvement in our gross margin from home sales and a 140 basis point reduction in our SG&A rate. The combination of these factors led to a 260 basis point year-over-year improvement in our total pretax operating margin to 7.7%. Our favorable results for the full year were significantly impacted by a $187.6 million tax benefit related to the reversal of a portion of our deferred tax asset valuation allowance in the second quarter.

Our net new home orders decreased negligibly year-over-year to 4,327 homes, driven largely by an 18% decrease in our average active communities, which was partially offset by a 21% improvement in our monthly absorption pace per active community. Our monthly absorption pace increased despite our implementation of routine price increases in most active subdivisions during the year, which were designed to create an appropriate balance between gross margins and absorption pace.

Our active community count as of December 31, 2013 was 146, down slightly from 148 a year ago. However, our investment in new homebuilding projects over the past year totaling approximately 7,900 lots purchased in 168 communities during the year ended December 31, 2013, 128 of which were new communities, resulted in a 38% year-over-year increase in our total supply of lots owned and under option to approximately 15,800 at December 31, 2013. We believe that this increase in acquisition activity will help drive sequential and year-over-year growth in our active community count in future periods. See "**Forward-Looking Statements**" above.

Our financial services continued to improve with pretax income of $29.5 million for the year ended December 31, 2013. The slight improvement in our financial services pretax income was attributable to our Other financial services segment, which benefited primarily from an increase in the volume of new home deliveries. The improvement in our Other financial services segment was partially offset by reduced pretax income from our Mortgage operations due to more competitive market conditions that adversely impacted our capture rate and margins on loans locked and originated.

Our financial position remained strong at the end of 2013, as evidenced by our total cash and marketable securities of $787.4 million, compared to our total senior note debt of $1,095.6 million. During the first half of 2013, we issued $350 million of 30-year 6% senior unsecured notes. Additionally, to further strengthen our liquidity, we entered into a 5-year, $450 million unsecured revolving credit agreement in December 2013. More recently, in January of 2014, we issued $250 million of 10-year 5.5% senior unsecured notes. We believe that our strong financial position gives us a competitive advantage as we pursue attractive land acquisition opportunities as the housing market improves, which can help us further grow our operations.

Homebuilding

Pretax Income

	Year Ended December 31,						
		Change			Change		
	2013	Amount	%	2012	Amount	%	2011
	(Dollars in thousands)						
Homebuilding pretax income (loss)							
West	$65,672	$38,596	143%	$27,076	$43,965	260 %	$(16,889)
Mountain	52,392	28,090	116%	24,302	22,905	1640%	1,397
East	19,590	8,579	78 %	11,011	18,206	253 %	(7,195)
Corporate	(37,331)	(7,559)	-25 %	(29,772)	58,169	66 %	(87,941)
Total homebuilding pretax income (loss):	$100,323	$67,706	208%	$32,617	$143,245	129 %	$(110,628)

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

Each of our homebuilding reportable segments, most notably our West and Mountain segments, showed substantial improvements in pretax income for the twelve months ended December 31, 2013 as compared with the same period in 2012, benefiting from significant increases in home sale revenues and gross margins from home sales. Also, excluding a $2.5 million legal recovery in 2012 for our East segment, our SG&A rates for all homebuilding segments showed improvements. Our pretax loss for our non-operating Corporate reportable segment increased by $7.6 million primarily due to increases in our general and administrative expenses related to our accrual for higher incentive-based compensation and higher legal expenses, which were partially offset by reduced stock-based compensation expense. While the SG&A expenses increased during 2013 in the Corporate segment, the SG&A rate decreased due to increased homebuilding revenues.

For the year ended December 31, 2012, we reported homebuilding pretax income of $32.6 million, compared to a pretax loss of $110.6 million for the year ended December 31, 2011. The $143.2 million improvement in our homebuilding financial performance was driven primarily by a 43% increase in home sale revenues, a 230 basis point improvement in our gross margin from home sales, a 770 basis point reduction in our SG&A rate and a $20.0 million decrease in our interest expense. In addition, the 2011 results were adversely impacted by a $38.8 million charge related to the early extinguishment of $500 million of debt.

Our West, Mountain and East segments all showed improvements in pretax results for the year ended December 31, 2012 compared to 2011. The improvements in each of these segments were driven by reductions in SG&A expenses and improvements in our gross margins in many markets. The improvements in pretax results were also aided by increases in our homebuilding revenues in our West, Mountain and East segments due to increases in homebuilding deliveries and average price per home delivered. Our pretax results for our non-operating Corporate segment improved $58.2 million for the year ended December 31, 2012 due primarily to reductions in both interest and SG&A expenses, which included a various significant legal recoveries totaling $9.8 million during 2012, and a $38.8 million reduction in loss on extinguishment of senior debt that was recorded in 2011.

Assets

	December 31, 2013	2012	Change Amount	%
	(Dollars in thousands)			
Homebuilding assets				
West	$ 760,450	$ 459,807	$ 300,643	65 %
Mountain	418,796	332,939	85,857	26 %
East	297,627	274,199	23,428	9 %
Corporate	951,809	692,500	259,309	37 %
Total homebuilding assets	$ 2,428,682	$ 1,759,445	$ 669,237	38 %

Homebuilding assets in all of our reportable segments, most notably our West segment, increased considerably from December 31, 2012 to December 31, 2013, as higher construction and land acquisition activity drove an increase in our inventory balances. Homebuilding assets in our Corporate segment increased $259.3 million from December 31, 2012 to December 31, 2013, primarily due to an increase in our deferred tax asset after the $187.6 million reversal of our deferred tax asset valuation allowance in the 2013 second quarter. The remainder of the increase in our Corporate segment was primarily related to the net proceeds generated from the issuance of $350 million of 30-year 6% senior unsecured notes, much of which was used for investments in homebuilding inventories.

Revenues

	Year Ended December 31, 2013	Change Amount	%	2012	Change Amount	%	2011
	(Dollars in thousands)						
Home and land sale revenues							
West	$671,278	155,199	30%	$516,079	$243,279	89%	$272,800
Mountain	546,801	191,433	54%	355,368	39,179	12%	316,189
East	411,096	126,401	44%	284,695	56,661	25%	228,034
Total home and land sale revenues	$1,629,175	$473,033	41%	$1,156,142	$339,119	42%	$817,023

The increases in home and land sale revenues for the years ended December 31, 2013 and 2012 were driven primarily by 26% and 35% increases in new home deliveries, respectively, and 12% and 6% increases in average selling price, respectively.

New Home Deliveries:

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

N/M - Not meaningful

	Year Ended December 31,								
	2012			2011			% Change		
	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price
	(Dollars in thousands)								
Arizona	603	$131,278	$217.7	423	$80,133	$189.4	43 %	64 %	15 %
California	543	184,490	339.8	272	83,488	306.9	100%	121 %	11 %
Nevada	604	125,725	208.2	331	61,833	186.8	82 %	103 %	11 %
Washington	247	73,074	295.8	146	38,710	265.1	69 %	89 %	12 %
West	1,997	514,567	257.7						