MDC HOLDINGS INC
Form 10-K
February 07, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2007

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

Denver, Colorado **80237**
(Address of principal executive offices) **(Zip code)**

(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**
7% Senior Notes due December 2012	**New York Stock Exchange**
5 1/2% Senior Notes due May 2013	**New York Stock Exchange**
5 3/8% Senior Notes due December 2014	**New York Stock Exchange**
5 3/8% Senior Notes due July 2015	**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 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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicated 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, 2007, the aggregate market value of the Registrants common stock held by non-affiliates of the Registrants was $1.7 billion based on the closing sales price of $48.36 per share as reported on the New York Stock Exchange.

As of December 31, 2007, the number of shares outstanding of Registrant s common stock was 46,084,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of part III of this Form 10-K are incorporated by reference from the Registrant s 2008 definitive proxy statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant s fiscal year.

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M.D.C. HOLDINGS, INC.

FORM 10-K

PART I

Forward-Looking Statements.

Certain statements in this Annual Report on Form 10-K, the Company s Annual Report to Shareowners, 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. Although we believe that the expectations reflected in the forward-looking statements contained in this Annual Report on Form 10-K 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. These factors include those described under the caption Risk Factors Relating to our Business in Item 1A of this Annual Report on Form 10-K. 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 consulted.

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 for the construction and sale 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 many homebuilding subdivisions that we consider to be our operating segments. Homebuilding subdivisions in a given market are aggregated into reportable segments as follows: (1) West (Arizona, California and Nevada); (2) Mountain (Colorado and Utah); (3) East (Maryland and Virginia, which includes Virginia and West Virginia); and (4) Other Homebuilding (Florida, Illinois, Delaware Valley, which includes Pennsylvania, Delaware and New Jersey, and Texas, although during 2007 we completed our exit of the Texas market).

Our financial services operations primarily consist of our mortgage lending, title agency and insurance companies. These companies are aggregated together to form our Financial Services and Other reportable segment. Our Financial Services and Other segment consists of HomeAmerican Mortgage Corporation (HomeAmerican), which originates mortgage loans primarily for our homebuyers, American Home Insurance Agency, Inc. (American Home Insurance), which offers third-party insurance products to our homebuyers, and American Home Title and Escrow Company (American Home Title), which provides title agency services to the Company and our homebuyers in Colorado, Delaware, Florida, Illinois, Nevada, Maryland, Virginia and West Virginia. This segment also includes Allegiant Insurance Company, Inc., A Risk Retention Group (Allegiant), which provides to its customers, primarily certain subcontractors of MDC s homebuilding subsidiaries, general liability coverage during the construction of the Company s homes and for work performed in completed subdivisions, and StarAmerican Insurance Ltd. (StarAmerican), a Hawaii corporation and a wholly owned subsidiary of MDC. StarAmerican has agreed to re-insure (1) all claims pursuant to two policies issued to the Company by a third-party; and (2) pursuant to agreements beginning in June 2004, all Allegiant claims in excess of $50,000 per occurrence, up to $3.0 million per occurrence, subject to various aggregate limits, not to exceed $18.0 million per year.

The following summarizes several significant business developments during the five most recently completed fiscal years:

- Beginning in 2006 and continuing throughout 2007, we reduced our overall operations through Company-wide headcount reductions and reorganized our homebuilding operations through consolidation of homebuilding divisions and elimination of most of our regional offices. This right-sizing of our homebuilding operations included the consolidation of:
  - six California divisions into one;
  - two Nevada divisions into one;
  - three Phoenix divisions into one;
  - three Virginia divisions into one;
  - two Florida divisions into one; and
  - three Colorado divisions into two.
- During 2007, we began reducing our homebuilding operations in Tampa through the disposition of a majority of the remaining assets as we initiated the exit of this sub-market.
- During 2006 and 2007, we implemented a new customer service initiative, which is focused on making improvements in our customers home buying experience.
- During 2006, we began exiting the Texas market, which we completed during 2007.
- During 2004 and 2005, we initiated our Home Gallery concept, which improved sales support and offered more options and upgrades for homebuyers to personalize their new homes.
- During 2004, we expanded our Florida operations through the purchase of the assets of Watson Home Builders, Inc. in Jacksonville.
- During 2003, we entered the Delaware Valley and Illinois homebuilding markets, and re-entered the Florida homebuilding market through the purchase of assets of Crawford Homes, Inc. in Jacksonville.

(b) Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Anyone seeking information about our business can receive copies of our 2007 Annual Report on Form 10-K, Annual Report to Shareholders, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports and other documents filed with the SEC at the public reference section of the SEC at 100 F Street, NE, Room 1580, Washington, D.C. 20549. These documents also may be obtained, free of charge, by: contacting our Investor Relations office at (720) 773-1100; writing to M.D.C. Holdings, Inc., Investor Relations, 4350 South Monaco Street, Suite 400, Denver, Colorado 80237; or accessing our website at www.richmondamerican.com. 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 on our website as soon as reasonably practicable after we file or furnish the materials electronically with the SEC. To obtain any of this information, go to www.richmondamerican.com, select Investors, Financial Reports and SEC Filings. Our website also 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 Nominating and Corporate Governance Committees. These materials may be obtained, free of charge, at our website, http://ir.richmondamerican.com (select Corporate Governance).

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(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, 2007, 2006 and 2005.

(d) Narrative Description of Business

Our business consists of two primary operations, homebuilding and financial services. We build and sell primarily single-family detached homes, that are designed and built to meet local customer preferences. We are the general contractor for all of our projects and retain subcontractors for site development and home construction. The base selling prices for our homes closed during 2007 ranged primarily from approximately $200,000 to 500,000. We maintain a variety of home styles in each of our markets, targeting generally first-time and first-time move-up homebuyers. Also, we build a limited number of homes for the second-time move-up and luxury homebuyers.

When opening a new homebuilding subdivision, we seek to limit our supply of lots with the goal of avoiding overexposure to any single sub-market. When we acquire finished lots, we prefer using option contracts or paying in phases with cash. Also, we acquire entitled land for development into finished lots when we determine that the risk is justified. Additional information about our land acquisition practices may be found in the Homebuilding Operations, *Land Acquisition and Development* section.

Homebuilding Operations.

At December 31, 2007, our homebuilding operations had subdivisions in multiple sub-markets in ten markets within four reportable segments as follows.

Reportable Segment	Market	Sub-market	Reportable Segment	Market	Sub-market
West	Arizona	Phoenix East Valley	Mountain	Colorado	Denver Metro Area
		Phoenix West Valley			Colorado Springs
		Tucson			Northern Colorado
	California	Bay Area		Utah	Salt Lake City Metro Area
		Central Valley			
		Inland Empire	Other Homebuilding	Delaware Valley	Delaware - Dover Area
		Los Angeles			New Jersey - Burlington
		Orange County			Southeastern Pennsylvania
		San Diego			Southern Pennsylvania
	Nevada	Las Vegas		Florida	Jacksonville
					Tampa
East	Virginia	Northern Virginia			
		Shenandoah Valley		Illinois	Chicago Suburbs
		West Virginia			
	Maryland	Southern Maryland			
		Suburban Maryland			

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Our home sales revenue for the years ended December 31, 2007, 2006 and 2005 is set forth in the table below for each market within our homebuilding segments (dollars in thousands).

	Total Homes Sales Revenue			Percent of Total		
	2007	**2006**	**2005**	**2007**	**2006**	**2005**
Arizona	$ 702,418	$ 980,409	$ 831,796	26%	21%	17%
California	588,562	998,471	1,075,900	21%	21%	23%
Nevada	385,751	872,970	920,728	14%	19%	19%
West	1,676,731	2,851,850	2,828,424	61%	61%	59%
Colorado	284,419	450,392	627,042	10%	10%	13%
Utah	255,273	277,743	204,496	9%	6%	4%
Mountain	539,692	728,135	831,538	19%	16%	17%
Maryland	149,917	246,492	191,365	6%	5%	4%
Virginia	167,194	378,373	539,519	6%	8%	11%
East	317,111	624,865	730,884	12%	13%	15%
Delaware Valley	80,057	80,966	12,196	3%	2%	0%
Florida	129,880	262,209	238,054	5%	6%	5%
Illinois	39,126	63,925	33,490	1%	1%	1%
Texas	3,369	65,560	128,289	0%	1%	3%
Other Homebuilding	252,432	472,660	412,029	9%	10%	9%
Intercompany adjustments	(19,985)	(26,954)	(10,175)	-1%	0%	0%
Total	$ 2,765,981	$ 4,650,556	$ 4,792,700	100%	100%	100%

Economies of Scale. We believe that our scale of operations has afforded us benefits such as:

- the ability to negotiate favorable contract terms associated with lot option contracts;
- the ability to sustain operations in our markets despite limiting or altogether eliminating the acquisition of new land until such time as land becomes available at reasonable prices;
- the ability to negotiate volume contracts with material suppliers and subcontractors;
- access to affordable insurance coverage; and

access to lower cost capital.

Operating Divisions. In our homebuilding segments, our primary functions include land acquisition and development, home construction, purchasing, sales and marketing, merchandising and customer service. Operating decisions are made on a subdivision-by-subdivision basis under the oversight of our Chief Operating Decision Makers (CODMs), defined as our Chief Executive Officer, Chief Operating Officer and Chief Financial Officer. Generally, each operating division consists of a division president; land procurement, sales, construction, customer service, finance and purchasing personnel; and office staff. The Company s underlying organizational structure i.e. the grouping and reporting of subdivisions and divisions changes based upon the current needs of the Company. At December 31, 2007 and 2006, we had 12 and 23 separate homebuilding operating divisions, respectively. Officers of our divisions generally receive performance-related bonuses based upon achieving targeted financial and operational results in their respective operating divisions.

Corporate Management. We manage our homebuilding business primarily through members of senior management in our Corporate segment and our Asset Management Committees (each an AMC). Each AMC is comprised of the COO and one of the Company s corporate officers or employees. The AMCs review and approve all subdivision acquisition transactions in accordance with land resource allocation decisions made by the CODMs. Land acquisition transactions may not proceed without the approval by AMC and/or our CODMs. Generally, the role of our senior management team and/or AMCs includes:

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

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

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

Housing. Generally, we 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. Within each series, we build several models, each with a different floor plan and standard and optional features. Differences in sales prices of similar models in any series depend primarily upon homebuyer demand, home prices offered by our competitors, location, optional features and design specifications. The series of homes offered at a particular location is based on perceived customer preferences, lot size, the area s demographics and, in certain cases, the requirements of major land sellers and local municipalities.

We seek to maintain limited levels of inventories of unsold homes in our markets. Unsold homes in various stages of completion allow us to meet the immediate and near-term demands of prospective homebuyers. In order to mitigate the risk of carrying excess inventory, we have procedures and limits on the number of our unsold homes under construction and speculative homes resulting from home order cancellations. The table below shows the stage of construction for our homes completed or under construction, number of sold homes under construction and model homes (in units).

	December 31, 2007	December 31, 2006	December 31, 2005
Unsold Homes Under Construction - Final	515	476	258
Unsold Homes Under Construction - Frame	656	573	520
Unsold Homes Under Construction - Foundation	229	400	353
Total Unsold Homes Under Construction	1,400	1,449	1,131
Sold Homes Under Construction	1,350	2,430	5,093
Model Homes	730	757	667
Homes Completed or Under Construction	3,480	4,636	6,891

Land Acquisition and Development. We acquire our lots with the intention of constructing and selling homes on the acquired land. Generally, we purchase finished lots using option contracts, in phases or in bulk for cash. On a limited basis, we acquire entitled land for development into finished lots when we believe that the risk is justified. In

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making land purchases, we consider a number of factors, including projected rates of return, estimated Home Gross Margins (defined as home sales revenue less home cost of sales as a percent of home sales revenue), sales prices of the homes to be built, population and employment growth patterns, proximity to developed areas, estimated costs of development, estimated levels of competition and demographic trends. Generally, we acquire finished lots and land for development only in areas that will have, among other things, available building permits, utilities and suitable zoning. We attempt to maintain a supply of finished lots sufficient to enable us to start homes promptly after a contract for a home sale is executed. This approach is intended to minimize our investment in inventories. See **Forward-Looking Statements** above.

In our option contracts, we 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 we elect not to purchase the lots within a specified period of time, we forfeit the option deposit. Our option contracts generally do not contain provisions requiring our specific performance. During the years ended December 31, 2007, 2006 and 2005, we wrote-off lot option deposits and pre-acquisition costs of $23.4 million, $29.7 million and $10.4 million, respectively. At December 31, 2007, we had the right to acquire 3,615 lots under option contracts, with approximately $6.3 million and $6.5 million in non-refundable cash and letters of credit option deposits at risk, respectively. At December 31, 2007, the total purchase price for lots under option and total capitalized pre-acquisition costs were $419 million and $1.4 million, respectively.

We own or have the right under option contracts to acquire undeveloped parcels of real estate that we intend to develop into finished lots. We develop our land in phases (generally fewer than 100 lots at a time) in order to limit our risk in a particular subdivision and to efficiently employ available resources. 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.

The table below shows the carrying value of land and land under development, by homebuilding segment, at December 31, 2007, 2006 and 2005 (in thousands).

	December 31,		
	2007	**2006**	**2005**
West	$ 226,621	$ 980,666	$ 1,108,777
Mountain	205,983	282,063	216,729
East	87,118	185,627	187,999
Other Homebuilding	34,614	126,802	164,443
Total	$ 554,336	$ 1,575,158	$ 1,677,948

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The table below shows the number of lots owned and controlled under option (excluding lots in housing completed or under construction), by homebuilding segment, at December 31, 2007, 2006 and 2005 (in units).

	December 31,		
	2007	**2006**	**2005**
Lots Owned			
West	6,009	11,917	14,807
Mountain	3,855	4,664	4,603
East	671	1,171	1,462
Other Homebuilding	980	1,658	2,573
Total	11,515	19,410	23,445
Lots Controlled Under Option			
West	673	1,381	7,055
Mountain	262	892	2,616
East	1,869	3,341	4,397
Other Homebuilding	811	2,483	4,751
Total	3,615	8,097	18,819
Total Lots Owned and Controlled	15,130	27,507	42,264

The table below shows the amount of non-refundable option deposits (in thousands).

	December 31,		
	2007	**2006**	**2005**
Cash	$ 6,292	$ 20,228	$ 48,157
Letters of Credit	6,547	14,224	23,142
Total Non-refundable Option Deposits	$ 12,839	$ 34,452	$ 71,299

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 Home Gross Margins 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 Home Gross Margins, or both. See **Forward-Looking Statements** above.

Warranty. Our homes are sold with limited third-party warranties that generally provide for ten years of structural coverage (structural warranty), 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, we are responsible for performing all of the work for the first two years of the warranty coverage, and substantially all of the work required to be performed during years three through ten of the warranties. As a result, warranty reserves are established as homes close on a house-by-house basis in an amount estimated to be adequate to cover expected costs of materials and outside labor during warranty periods. Reserves are determined based upon historical experience with respect to similar home styles and geographical areas. Certain factors are considered in determining the per-house reserve amount, including: (1) the historical range of amounts paid per

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house; (2) the historical amount paid as a percent of home construction costs; (3) any warranty expenditures included in (1) and (2) not considered to be normal and recurring; (4) improvements in quality control and construction techniques expected to impact future warranty expenditures; and (5) conditions that may affect certain subdivisions and require higher per-house reserves for those specific subdivisions.

Seasonal Nature of Business. Prior to 2006, the Company experienced seasonality and quarter-to-quarter variability in homebuilding activity levels. The seasonal nature of our business is described in more detail in Item 6 Selected Financial and Other Data.

Backlog. At December 31, 2007 and 2006, homes under contract but not yet delivered (Backlog) totaled 1,947 and 3,638, respectively, with an estimated sales value of $650 million and $1.3 billion, respectively. Our Cancellation Rates (as defined below) were 48% and 43% for the years ended December 31, 2007 and 2006, respectively. We define Cancellation Rate as the approximate number of cancelled home order contracts during a reporting period as a percent of total home orders received during such reporting period. We anticipate the estimated Backlog sales value at December 31, 2007 will be realized during 2008 through closing homes in Backlog either under their existing home order contracts or through the replacement of an existing contract with a new home order contract. See **Forward-Looking Statements** above.

The table below discloses our Backlog for the years ended December 31, 2007 and 2006 for each market within our homebuilding segments (dollars in thousands).

	December 31,		2007 Increase (Decrease)	
	2007	**2006**	**Amount**	**%**
Backlog (*Units*)				
Arizona	592	1,504	(912)	-61%
California	203	427	(224)	-52%
Nevada	307	315	(8)	-3%
West	1,102	2,246	(1,144)	-51%
Colorado	213	253	(40)	-16%
Utah	178	465	(287)	-62%
Mountain	391	718	(327)	-46%
Maryland	126	187	(61)	-33%
Virginia	100	136	(36)	-26%
East	226	323	(97)	-30%
Delaware Valley	57	119	(62)	-52%
Florida	125	197	(72)	-37%
Illinois	46	23	23	100%
Texas	-	12	(12)	-100%
Other Homebuilding	228	351	(123)	-35%
Total	1,947	3,638	(1,691)	-46%
Estimated Backlog Sales Value	$ 650,000	$ 1,300,000	$ (650,000)	-50%
Estimated Average Sales Price in Backlog	$ 333.8	$ 357.3	$ (23.5)	-7%

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Our Backlog at December 31, 2007 decreased from levels at December 31, 2006 in each of our homebuilding segments and in nearly all markets in these segments. Contributing to the decrease in Backlog at December 31, 2007, were declines in net home orders during the last six months of 2007, compared with the last six months of 2006, in most markets within each homebuilding segment. Additionally, the decrease in Backlog at December 31, 2007 was most notable in our West segment, where Backlog declined by a combined 1,136 units from December 31, 2006 in Arizona and California. Backlog for Nevada at December 31, 2007 remained flat, compared with December 31, 2006, primarily due to sales incentives which were introduced in late November and December of 2007 that resulted in a significant number of new home orders received.

Estimated Backlog sales value at December 31, 2007 decreased from December 31, 2006, primarily due to a 46% decrease in the number of homes in Backlog and a 7% decrease in the estimated average sales price of homes in Backlog. The decline in the estimated average sales price of homes in Backlog is consistent with the decrease in the average selling prices of homes closed during 2007, which were impacted by factors contributing to the downturn in the homebuilding industry, as described in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Customer Service and Quality Control. Our homebuilding divisions are responsible for pre-closing quality control inspections and responding to customers post-closing needs. During 2006, we created a product service and quality control task force, which designed and began implementation of a revised customer experience initiative. This is a multi-year initiative that is focused on making improvements in our customers complete home buying and homeownership experience. The initial phase of this initiative was rolled out to our Nevada market in the fourth quarter of 2006 and to all of our other markets during 2007.

Marketing and Sales. We evaluate our marketing and sales programs and initiatives in order to target homebuyers in a cost effective manner. To communicate our Richmond American brand and sales promotions, we have a centralized in-house advertising and marketing department that controls and monitors the communication of the Company s brand and promotion efforts. The main objective of this department is to direct potential homebuyers to our sales offices, Home Galleries, Homebuyer Resource Centers and website. We work towards these objectives through various advertising outlets, including, newspapers, magazines, signage, direct mailings and radio. In addition, our in-house corporate communications team manages our public relations and employee communications, and our interactive marketing team maintains our richmondamerican.com website.

To complement our marketing efforts, our in-house merchandising team furnishes our model homes and sales offices with the objective of providing a consistent presentation in furtherance of developing our Richmond American brand.

Home Gallery and Design Center. Another important part of our marketing presentation takes place in our design centers, which are located in most of our homebuilding markets. Homebuyers are able to customize certain features of their homes by selecting from a variety of options and upgrades. In 2004, we launched our new Home Gallery concept, which provides improved sales support and customized options for prospective homebuyers to personalize their new homes. These retail locations also serve as a resource to homebuyers who are interested in purchasing a new Richmond American home. Prospective homebuyers can receive individualized attention from a trained team of new home specialists, resulting in a more focused, efficient home search.

Competition. The homebuilding industry is fragmented and highly competitive. The competitive nature of our business is described in more detail in Item 1A, *Risk Factors Relating to our Business.*

Regulation. Our homebuilding operations are subject to compliance with applicable laws and regulations, which are described in more detail in Item 1A, *Risk Factors Relating to our Business.*

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Bonds and Letters of Credit. In many cases, we are required to obtain bonds and/or letters of credit in support of obligations primarily related to subdivision improvements, homeowners association dues and start-up expenses, warranty work, contractors license fees and earnest money deposits. At December 31, 2007 and 2006, we had outstanding performance bonds totaling $281.6 million and $388.6 million, respectively, and letters of credit totaling $51.2 million and $83.8 million, respectively, including $16.4 million and $26.8 million, respectively, issued by HomeAmerican.

In certain states, unless we take measures to release state regulatory imposed restrictions on earnest money deposits (Deposits) received from a homebuyer in conjunction with a home sale, which may include posting blanket security bonds, we are restricted from using these Deposits for general purposes. In this regard, at December 31, 2007 and 2006, we had $8.5 million and $10.5 million outstanding in blanket security bonds used to release restrictions on certain Deposits. Additionally, we had $1.9 million and $2.6 million in restricted cash related to Deposits at December 31, 2007 and 2006, respectively. We monitor, on a regular basis, the amount of Deposits we hold in certain states to confirm that our blanket security bonds exceed the amount of the Deposits.

In the event performance bonds or letters of credit issued by third-parties are called, our indemnity obligations could require us to reimburse the issuer of the performance bond or letter of credit. See **Forward-Looking Statements** above.

Financial Services and Other Segment.

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 also brokers mortgage loans for origination by outside lending institutions for our homebuyers.

HomeAmerican is authorized to originate Federal Housing Administration-insured (FHA), Veterans Administration-guaranteed (VA), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) (together the government sponsored entities) and other private investor mortgage loans. HomeAmerican also is an authorized loan servicer for FNMA and FHLMC and, as such, is subject to the rules and regulations of these organizations. Additionally, during 2006, HomeAmerican originated a significant number of second mortgage loans and Alternative A (Alt-A) loans (as defined below). However, during 2007, in response to the reduced liquidity in the mortgage lending industry, we tightened our mortgage loan underwriting criteria by: (1) discontinuing Alt-A mortgage loans, second mortgage loans, sub-prime mortgage loans (as defined below) and Non-Agency (defined as not being FNMA and FHLMC eligible) mortgage loans with combined-loan-to-values in excess of 95%; and (2) requiring larger down payments from homebuyers in communities where the market values of homes have been declining. We define Alt-A loans as loans that would otherwise qualify as prime loans except that they do not comply in all ways with the documentation standards of the government sponsored enterprise guidelines. We define sub-prime mortgage loans as mortgage loans that have Fair, Isaac & Company scores less than or equal to 620.

We use HomeAmerican s secured warehouse line of credit, other borrowings and Company generated funds to finance the origination of mortgage loans until they are sold. HomeAmerican generally sells originated mortgage loans to third-party purchasers on either a bulk or flow basis. Mortgage loans sold on a bulk basis generally include the sale of a package of substantially similar originated mortgage loans, while sales of mortgage loans on a flow basis generally are completed as HomeAmerican originates each loan. Mortgage loans sold to third-party purchasers generally include HomeAmerican s representations and warranties with respect to certain borrower payment defaults, credit quality issues and/or misrepresentations on the part of the Company or our homebuyers. Substantially all of the mortgage loans originated by HomeAmerican are sold to third-party purchasers within 45 days of origination. Additionally, mortgage loans may be sold pursuant to an early purchase program, whereby we sell certain mortgage loans originated by HomeAmerican to a third-party purchaser shortly after the close of a home. This program improves our overall available funds by enabling us to sell mortgage loans originated by HomeAmerican more quickly. Accordingly, for mortgage loans sold pursuant to this program the number of days a loan is held in inventory is reduced from the historical 45 days to less than five days.

Concurrent with the sale of mortgage loans to third-party purchasers, HomeAmerican generally sells the rights to service those loans. HomeAmerican s portfolio of mortgage loan servicing for others at December 31, 2007 consisted of 597 loans with an unpaid principal balance of approximately $67.4 million, and did not contribute significantly to the results of operations of the Company.

Historically, a substantial portion of mortgage loans originated by HomeAmerican have been sold to one third-party purchaser. During the years ended December 31, 2007, 2006 and 2005, HomeAmerican sold approximately 51%, 54% and 68%, respectively, of the mortgage loans it originated to this third-party purchaser. Additionally, during 2007, HomeAmerican increased the volume of loans sold to a second third-party purchaser to approximately 23% of mortgage loans sold during 2007.

Pipeline. HomeAmerican s mortgage loans in process that had not closed (the Pipeline) at December 31, 2007 had an aggregate principal balance of approximately $387.6 million, of which $37.6 million were under interest rate lock commitments (IRLC) at an average interest rate of 6.0%. In addition, HomeAmerican had $100.1 million of mortgage loans in inventory available for sale at December 31, 2007. HomeAmerican uses forward sales of mortgage-backed securities and commitments to sell whole loans to hedge the interest rate risk inherent in the IRLC and its loan inventory available for sale. See **Forward-Looking Statements** above.

Forward Sales Commitments. HomeAmerican is exposed to market risks related to fluctuations in interest rates due to its mortgage loan inventory. Derivative instruments utilized in the normal course of business by HomeAmerican include forward sales of mortgage-backed securities, commitments to sell whole loans and commitments to originate mortgage loans. HomeAmerican utilizes forward mortgage securities contracts to manage the price risk due to fluctuations in interest rates on our mortgage loans owned and the IRLC. Such contracts are the only significant financial derivative instruments utilized by us and generally are settled within 60 days of origination. Due to this hedging philosophy, we believe the market risk associated with HomeAmerican s mortgages is limited. Reported gains on sales of mortgage loans may vary significantly from period to period depending on the volatility in the interest rate market. See **Forward-Looking Statements** above.

Competition. The mortgage industry is fragmented and highly competitive. The competitive nature of our business is described in more detail in Item 1A, *Risk Factors Relating to our Business.*

Regulation. Our mortgage lending operations are subject to compliance with applicable laws and regulations, which are described in more detail in Item 1A, *Risk Factors Relating to our Business.*

Insurance Operations.

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 for homebuilding risks as to which we believed insurance coverage was either too difficult or too expensive to obtain. 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. Allegiant generates revenue by providing to its customers, primarily certain subcontractors of MDC s homebuilding subsidiaries, general liability coverage during the construction of the Company s homes 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 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 $3,000,000 per occurrence, subject to various aggregate limits, which do not exceed $18,000,000 per year.

Allegiant and StarAmerican incur expenses for losses and loss adjustments based on actuarial studies that include known facts and interpretations of circumstances, including the Company s experience with similar insurance cases and historical trends involving insurance claim payment patterns, pending levels of unpaid insurance claims, mix or concentration of home styles, claim severity, claim frequency patterns such as those caused by natural disasters, fires, or accidents, depending on the business conducted, and changing regulatory and legal environments.

Regulations. Allegiant and StarAmerican are licensed in the State of Hawaii and, therefore, are subject to the regulation of 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. As insurance companies organized under Hawaii s captive insurance laws, Allegiant and StarAmerican are subject to fewer regulations than non-captive insurance companies. As a risk retention group, Allegiant also is registered in other states where certain MDC subsidiaries do business. Allegiant must pay premium taxes and comply with financial and information reporting requirements of the insurance departments in these additional states.

American Home Insurance is an insurance agency, which provides homebuyers with personal lines property and casualty insurance products in the same markets as our homebuilding subsidiaries.

Title Operations.

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

Employees.

The table below summarizes the approximate number of employees for our homebuilding, Financial Services and Other and Corporate segments at December 31, 2007.

Homebuilding segments	1,700
Financial Services and Other	180
Corporate	290
Consolidated	2,170

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Item 1A. Risk Factors Relating to our Business.

Adverse changes in general economic conditions could reduce the demand for homes and, as a result, could negatively impact our results of operations.

The homebuilding and mortgage lending industries continued to experience uncertainty and reduced demand for new homes, which negatively impacted our financial and operating results during the year ended December 31, 2007. Widespread national and international concern over instability in the credit markets has exacerbated the decline in demand for new homes. The conditions experienced during 2007 included, among other things: reduced consumer confidence; on-going homebuyer concerns about the housing market and the lack of home selling price stabilization; concerns over higher-risk mortgage loan products, such as Alt-A and sub-prime mortgage loans; and reduced availability of mortgage loan financing.

If the downturn in the homebuilding and mortgage lending industries continues, intensifies, or if the national economy weakens further and slips into a recession, we could continue to experience declines in the market value and demand for our homes, which could have a significant negative impact on our Home Gross Margins and financial and operational results.

Increased competition levels in the homebuilding and mortgage lending industries could result in lower net home orders, closings and decreases in the average selling prices of sold and closed homes, which could have a negative impact on our home sales revenue and results of operations.

The real estate industry is fragmented and highly competitive. Our homebuilding subsidiaries compete with numerous public and private homebuilders, including a number that are substantially larger and have greater financial resources than us. 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 price, home style, financing available to prospective homebuyers, location of property, 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 through an excess supply of new and existing homes available for sale resulting from a number of factors including, among other things, increases in speculative homes available for sale and increases in home foreclosures. Increased competition, including lower home sales prices offered by our competitors as experienced during 2007, can result in decreases in our home sales prices and/or increases in home sales incentives in an effort to generate new home sales and maintain homes in Backlog until they close. These competitive pressures are likely to continue for some time and could affect our ability to maintain existing home sales prices and require that we provide additional incentives, which would negatively impact our future financial and operating results.

We, through our mortgage lending subsidiary, HomeAmerican, also compete with numerous banks, thrifts and other mortgage bankers and brokers, many of which are larger 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 Financial Services and Other segment may be negatively impacted.

Further 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

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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 homes sales prices, levels of home sales incentives and home construction costs. Our home sales prices and/or levels of home sales incentives can be impacted by, among other things, decreased demand for new homes, decreased home prices offered by our competitors, decreased ability of our homebuyers to obtain suitable mortgage loan financing and continued high levels of home order cancellations. Additionally, our home construction costs can be impacted by, among other things, shortages of subcontractor labor and changes in costs associated with subcontracted labor, building materials and other resources. If we are required to decrease home sales prices and/or increase incentives in an effort to generate new home sales, maintain homes in Backlog until they close or remain competitive with the home sales prices offered by our competitors, or if our home construction costs increase, we may not be able to recover the carrying costs of our inventory when our homebuilding subsidiaries build and sell homes. In such circumstances, we would be required to record additional impairments of our inventory. Additionally, due to the uncertainty in the homebuilding and mortgage lending industries, it is reasonably possible for us to experience further declines in the market value of our homes and, as a result, additional inventory impairments could be recorded in future reporting periods. Any such additional 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.

Increases in our Cancellation Rate could have a negative impact on our Home Gross Margins and home sales revenue.

Our Cancellation Rate increased significantly during 2007 and 2006, compared with 2005 and 2004, which has negatively impacted the number of closed homes, net home orders, home sales revenue and our results of operations during 2007 and 2006, as well as the number of homes in Backlog at the end of each reporting period. Home order cancellations can result from a number of factors, including, declines in the market value of homes and/or slow appreciation 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. Continued high levels of home order cancellations would have a negative impact on our home sales revenue and financial and operating results in future reporting periods.

If land is not available at reasonable prices, 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 given the deterioration in market conditions, 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 appropriate for development of residential communities becomes more limited because of these factors, or for any other reason, the number of homes that our homebuilding subsidiaries build and sell could be reduced. Additionally, the ability of our homebuilding subsidiaries to open new subdivisions could be impacted if we elect not to purchase lots under option contracts. 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 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.

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If our potential homebuyers are not able to obtain suitable financing, our results of operations or cash flows may be impacted adversely.

Our business depends on the ability of our homebuyers to obtain affordable mortgages for the purchase of our homes, which includes being able to provide sufficient initial down payments for mortgage loan products currently available. Increases in the cost of mortgage financing and/or reductions in mortgage loan product offerings could prevent potential homebuyers from being able to obtain or qualify for mortgage loans. In addition, if our homebuyers must sell existing homes in order to buy homes from us, increases in mortgage costs or decreases in the market value of homes could interfere with such sales and result in our homebuyers inability to buy from us. Additionally, homebuyers ability to obtain suitable financing could be adversely impacted by tightening of our mortgage loan underwriting criteria in response to the decreased liquidity in the mortgage lending market. We are unable to predict future changes in home mortgage interest rates or the impact such changes may have on our operating activities and results of operations. However, these conditions can negatively impact our home sales revenue and results of operations through closing fewer homes and/or closing homes with lower average selling prices.

We have financial needs that we meet through the capital markets, including the debt and secondary mortgage markets, and continued disruptions in these markets could have an adverse impact on the Company s 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. The secondary markets currently are experiencing disruptions from reduced investor demand for mortgage loans and mortgage-backed securities, increased investor yield requirements for those loans and securities and the exit of third-party purchasers from the secondary market. In addition, the sources and terms and conditions of warehouse financing 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. Additionally, while certain governmental organizations and other mortgage industry participants have taken steps recently to ease the downturn in the credit and capital markets, the impact of their efforts, if any, on the homebuilding and mortgage lending industries is unknown. The foregoing disruptions and changes may have an adverse impact on the Company s results of operations, financial position 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. While our credit ratings and liquidity position currently are strong, if we were unable to obtain surety bonds when required, our results of operations and/or cash flows could be impacted adversely.

In addition, the pricing matrix and the availability of advances and letters of credit under our homebuilding line of credit are dependent upon our credit ratings. While we currently have an investment grade credit rating from all three major ratings agencies, the lowering of any or all of these credit ratings could have an adverse impact on the cost of advances, letters of credit and unused commitment fees under our homebuilding line of credit. Lower credit ratings for MDC also could subject this line of credit to a borrowing base structure, which could limit our ability to obtain additional advances and issuances of letters of credit under this line. Under certain circumstances, these limitations could have an adverse impact on the Company s results of operations, financial position and/or cash flows.

Further uncertainty in the mortgage lending industry regarding the origination of mortgage loans could negatively impact our results of operations.

The Company is subject to risks associated with mortgage loans, including, among others, previously originated and sold Alt-A and sub-prime mortgage loans, second mortgage loans, high loan-to-value mortgage loans and jumbo mortgage loans (defined as a mortgage loan with a principal balance in excess of $417,000). 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 may impact HomeAmerican s results of operations, liquidity and cash flow as the existence of a defect that necessitated repurchase may require additional effort and expense incurred by HomeAmerican to cure the defect, the passage of time in order to cure or reduce the impact of an identified defect, a discounted sale of the repurchased loan due to the existence of a defect or, in the event that the loan has a defect and is non-performing, foreclosure and re-sale of the subject property.

Interest rate increases or changes in lending programs could lower demand for our homes and our mortgage lending services.

Our homebuilding and mortgage lending operations are impacted by the availability and cost of mortgage financing. Nearly all of our customers finance the purchase of their homes, and a significant number of these customers arrange their financing through HomeAmerican. Increases in home mortgage interest rates may reduce the demand for homes and home mortgages. We are unable to predict the extent to which recent or future changes in home mortgage interest rates will affect our operating activities and results of operations. Additionally, further tightening of mortgage loan underwriting criteria could have an adverse impact on our operating and financial results in future reporting periods.

In addition, we believe that the availability of FNMA, FHLMC, FHA and VA mortgage loans are an important factor in our marketing strategy. Any changes, limitations or restrictions on the availability of these types of financing could reduce our subsidiaries home sales and mortgage lending volume.

We depend on certain markets, and reduced home sales orders and closings for homes in these markets could have a negative impact on our revenue and results of operations. Additionally, we are reliant on a limited number of third-party purchasers of mortgage loans originated by HomeAmerican, which could impact our results of operations.

We conduct a significant portion of our business in the Arizona, California, Colorado, Nevada and Virginia markets and generate a disproportionate amount of our revenue in these markets. Demand for new homes and the market value of homes declined during 2007 and 2006 in each of these markets. If we continue to experience a slowdown in our operations within these markets, our results of operations and financial position in future reporting periods will continue to be negatively impacted.

Additionally, there are a limited number of third-party purchasers of mortgage loans and, at any given point in time, our business may be impacted adversely if one of them was no longer able or willing to purchase mortgage loans originated by HomeAmerican. Our operations could be impacted adversely due to reduced competition and having fewer bidders for originated mortgage loans we sell, which could result in us receiving a lower price for such originated mortgage loans.

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Our business is subject to numerous federal, local, 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 (including, but not limited to, those of the Occupational Safety & Health Administration). 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. Although future conditions or governmental actions may impact our ability to obtain necessary permits or water and sewer taps, we currently believe that we have, or can obtain, water and sewer taps and building permits for our homebuilding subsidiaries land inventory and land held for development.

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. Due to these considerations, our homebuilding subsidiaries generally obtain an environmental site assessment for parcels of land that they acquire. 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.

The Company also is 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, 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. Over time, the level of complexity in the mortgage lending business has increased significantly due to several factors, including: (1) an increase in the number of mortgage loan products as a result of the evolution of the secondary mortgage market and demand by borrowers; and (2) greater regulation of the industry. 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.

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, including moisture intrusion and related mold claims, arising in the ordinary course of business. These claims are common to the homebuilding industry and can be costly. In addition, the costs of insuring against construction defect and product liability claims are high and the amount of coverage offered by insurance companies is currently limited. This coverage may be

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further restricted and become more costly. 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.

Our income tax provision and other tax liabilities may be insufficient if taxing authorities are successful in asserting tax positions that are contrary to our position. Additionally, continued loss from operations in future reporting periods may require us to adjust the valuation allowance against our deferred tax assets.

From time to time, we are audited by various federal, state and local authorities regarding income tax matters. Significant judgment is required to determine our provision for income taxes and our liabilities for federal, state, local and other taxes. Our audits are in various stages of completion; however, no outcome for a particular audit can be determined with certainty prior to the conclusion of the audit, appeal and, in some cases, litigation process. Although we believe our approach to determining the appropriate tax treatment is supportable and in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, and FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, it is possible that the final tax authority will take a tax position that is materially different than that which is reflected in our income tax provision and other tax reserves. As each audit is conducted, adjustments, if any, are appropriately recorded in our Consolidated Financial Statements in the period determined. Such differences could have a material adverse effect on our income tax provision or benefit, or other tax reserves, in the reporting period in which such determination is made and, consequently, on our results of operations, financial position and/or cash flows for such period.

Our deferred tax assets should be reduced by a valuation allowance, if, based on the weight of available evidence, it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. In determining the more-likely-than-not criterion, we evaluate all positive and negative evidence as of the end of each reporting period. Future adjustments, either increases or decreases, to our deferred tax asset valuation allowance will be determined based upon changes in the expected realization of our net deferred tax assets. The realization of our deferred tax assets ultimately depends on the existence of sufficient taxable income in either the carryback or carryforward periods under the tax law. Due to significant estimates utilized in establishing the valuation allowance and the potential for changes in facts and circumstances, it is reasonably possible that we will be required to record adjustments to the valuation allowance in future reporting periods. Our results of operations would be impacted negatively if we determine that increases to our deferred tax asset valuation allowance are required in a future reporting period.

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

Prior to 2006, we experienced seasonality and quarter-to-quarter variability in homebuilding activity levels. In general, the number of homes closed and associated home sales revenue increased during the third and fourth quarters, compared with the first and second quarters. We believe that this seasonality reflected the historical tendency of homebuyers to purchase new homes in the spring with closings scheduled in the fall or winter, as well as the scheduling of construction to accommodate seasonal weather conditions in certain markets. During 2007 and 2006, this seasonality pattern in the homebuilding industry was not apparent. The extent to which our historical seasonality pattern contributed to actual 2007 home sales and closing levels is unknown, and there can be no assurances that this seasonality pattern will be present in future reporting periods.

Labor and material shortages could cause delays in, and increase the costs of, the construction of our homes.

The residential construction industry experiences labor and material shortages from time to time, including: work stoppages; labor disputes and shortages in qualified trades people, insulation, drywall, concrete, steel and lumber; 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 shortages, or 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. 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 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 Home Gross Margins and results of operations could be affected negatively.

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, including California and Florida, 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, in particular, may be negatively impacted. These, among other natural disasters, can affect an area in which we build, or one nearby, and result in a diversion of labor and materials in the area from new home construction to the rebuilding of the existing homes damaged or destroyed in the natural disaster. This can cause delays in construction and delivery of new homes and/or increase our construction costs.

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

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.

Increased domestic and international instability could have an adverse effect on our operations.

Adverse developments in the war on terrorism, future terrorist attacks against the United States, or increased domestic and international instability could adversely affect our business.

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

Larry A. Mizel, David D. Mandarich and other of our affiliates own, directly or indirectly, in the aggregate, almost 25% of our outstanding 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 elect our entire board of directors and control our management, operations and affairs. Circumstances may occur in which the interest of these shareholders could be in conflict with the interests of other shareholders. The large percentage of stock held by these persons could also delay or prevent a change in control of the Company.

Item 1B. Unresolved Staff Comments.

None

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Item 2. Properties.

Our corporate headquarters is located at 4350 South Monaco Street, Denver, Colorado 80237, where we lease office space in a 144,000 square foot office building. Our homebuilding divisions and, in some markets, other MDC subsidiaries, including HomeAmerican, American Home Insurance and American Home Title, 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, 2007. We are satisfied with the suitability and capacity of our office locations.

	Number of Leased Facilities	Total Square Footage Leased
Arizona	6	124,000
California	8	141,000
Colorado	9	305,000
Delaware Valley	3	16,000
Florida	4	43,000
Illinois	1	10,000
Maryland	2	16,000
Nevada	4	63,000
Texas	1	1,000
Utah	4	28,000
Virginia	5	81,000
Totals	47	828,000

Item 3. Legal Proceedings.

The Company and certain of its subsidiaries and affiliates have been named as defendants in various claims, complaints and other legal actions arising in the ordinary course of business, including moisture intrusion and related mold claims. In the opinion of management, the outcome of these matters will not have a material adverse effect upon the financial condition, results of operations or cash flows of the Company. See **Forward-Looking Statements** above.

The U.S. Environmental Protection Agency (EPA) filed an administrative action against Richmond American Homes of Colorado, Inc. (RAH Colorado), alleging that RAH Colorado violated the terms of RAH Colorado s general permit for discharges of stormwater from construction activities at two of RAH Colorado s development sites. In its complaint, the EPA sought civil penalties against RAH Colorado in the amount of $0.1 million. On November 11, 2003, the EPA filed a motion to withdraw the administrative action so that it could refile the matter in United States District Court as part of a consolidated action against RAH Colorado for alleged stormwater violations at not only the original two sites, but also two additional sites. The EPA s motion to withdraw was granted by the Administrative Law Judge on February 9, 2004. The EPA has not yet refiled the matter. The EPA has inspected 21 sites under development in Colorado and by RAH Colorado affiliates in Virginia, Maryland, Arizona and California, and claims to have found additional stormwater permit violations. RAH Colorado has substantial defenses to the allegations made by the EPA and the Company is exploring methods of resolving this matter with the EPA.

The EPA issued two Notices of Violation against Richmond American Homes of Arizona, Inc. (RAH Arizona) alleging violations of the Clean Air Act. The EPA asserted that RAH Arizona had not controlled dust generated at construction sites in Maricopa County in that it had not operated a water application system or other approved control measures, installed suitable track-out control devices and/or cleaned-up materials tracked-out from project sites. The EPA filed an action in the United States District Court, District of Arizona, against RAH Arizona based on these allegations. On September 17, 2007, RAH Arizona, without admitting any wrongdoing, reached a settlement with a release of civil liability for all alleged violations. After opportunity for public comment, the settlement agreement was approved by the Court, we paid a civil penalty of $155,000 and commenced implementation of various procedures to abate fugitive dust emissions.

Because of the nature of the homebuilding business, and in the ordinary course of its operations, the Company from time to time may be subject to product liability claims.

Item 4. Submission of Matters to a Vote of Security Holders.

No meetings of the Company s stockholders were held during the fourth quarter of 2007.

PART II

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

At December 31, 2007, MDC had 773 shareowners of record. The shares of MDC common stock are traded on the New York Stock Exchange. The following table sets forth, for the periods indicated, the price ranges of MDC s common stock.

	Three Months Ended			
	March 31	June 30	September 30	December 31
2007				
High	$ 60.00	$ 54.73	$ 50.33	$ 43.10
Low	$ 47.75	$ 47.54	$ 40.31	$ 32.34
2006				
High	$ 66.88	$ 68.10	$ 52.07	$ 57.31
Low	$ 58.72	$ 50.07	$ 40.43	$ 47.26

The following table sets forth the cash dividends declared and paid in 2007 and 2006 (dollars in thousands, except per share amounts).

	Date of Declaration	Date of Payment	Dividend per Share	Total Dividends Paid
2007				
First quarter	January 22, 2007	February 21, 2007	$ 0.25	$ 11,414
Second quarter	April 27, 2007	May 23, 2007	0.25	11,438
Third quarter	July 23, 2007	August 22, 2007	0.25	11,459
Fourth quarter	October 22, 2007	November 20, 2007	0.25	11,462
			$ 1.00	$ 45,773
2006				
First quarter	January 23, 2006	February 23, 2006	$ 0.25	$ 11,217
Second quarter	April 24, 2006	May 24, 2006	0.25	11,239
Third quarter	July 24, 2006	August 23, 2006	0.25	11,247
Fourth quarter	October 23, 2006	November 21, 2006	0.25	11,260
			$ 1.00	$ 44,963

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In connection with the declaration and payment of dividends, we are required to comply with certain covenants contained in our unsecured revolving line of credit agreement (as amended on January 24, 2008), which has a total commitment of $1.25 billion. Pursuant to the terms of this amended agreement, dividends may be declared or paid by us if we are in compliance with certain stockholders equity and debt coverage tests. As a result, effective January 24, 2008, we had a permitted dividend capacity of approximately $370 million pursuant to the most restrictive of these covenants.

On January 29, 2008, MDC s board of directors declared a quarterly cash dividend of twenty five cents ($0.25) per share. The dividend will be paid on February 26, 2008 to shareowners of record on February 12, 2008.

There were no shares of MDC common stock repurchased during the year ended December 31, 2007. At December 31, 2007, 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 the 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, 2007.

It is assumed in the graph that $100 was invested (1) in the Company s 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., Centex Corporation, 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

Item 6. Selected Financial and Other 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 the Company s Consolidated Financial Statements (in thousands, except per share and unit amounts).

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SELECTED FINANCIAL DATA

	Year Ended December 31,				
	2007	2006	2005	2004	2003
INCOME STATEMENT DATA					
Home sales revenue	$ 2,765,981	$ 4,650,556	$ 4,792,700	$ 3,922,837	$ 2,846,220
Total revenue	$ 2,933,249	$ 4,801,742	$ 4,892,589	$ 4,012,894	$ 2,922,595
Home cost of sales	$ 2,380,427	$ 3,619,656	$ 3,436,035	$ 2,834,092	$ 2,159,979
Asset impairments	$ 726,621	$ 112,027	$ -	$ -	$ -
General and administrative expenses	$ 306,715	$ 418,879	$ 401,184	$ 327,812	$ 237,648
(Loss) income before income taxes	$ (756,464)	$ 333,137	$ 808,763	$ 636,914	$ 348,223
Net (loss) income[(1)]	$ (636,940)	$ 214,253	$ 505,723	$ 391,165	$ 212,229
Basic (loss) earnings per common share	$ (13.94)	$ 4.77	$ 11.48	$ 9.19	$ 5.11
Diluted (loss) earnings per common share	$ (13.94)	$ 4.66	$ 10.99	$ 8.79	$ 4.90
Weighted-average shares outstanding					
Basic	45,687	44,952	44,046	42,560	41,521
Diluted[(2)]	45,687	45,971	46,036	44,498	43,333
Dividends declared per share	$ 1.00	$ 1.00	$ 0.76	$ 0.43	$ 0.28

(1) Net loss for the year ended December 31, 2007 includes the impact of recording a valuation allowance of $160.0 million against our deferred tax assets.

(2) 758,899 shares of common stock equivalents have been excluded from the diluted weighted-average shares outstanding for the year ended December 31, 2007 because the effect of their inclusion would be anti-dilutive, or would decrease the reported diluted loss per share.

	December 31,				
	2007	2006	2005	2004	2003
BALANCE SHEET DATA					
Assets					
Cash and cash equivalents	$ 1,004,763	$ 507,947	$ 214,531	$ 400,959	$ 170,289
Housing completed or under construction	$ 902,221	$ 1,178,671	$ 1,320,106	$ 887,002	$ 769,762
Land and land under development	$ 554,336	$ 1,575,158	$ 1,677,948	$ 1,129,266	$ 785,541
Total assets	$ 2,956,237	$ 3,909,875	$ 3,859,850	$ 2,844,731	$ 2,028,790
Debt and Lines of Credit					
Senior notes	$ 997,091	$ 996,682	$ 996,297	$ 746,310	$ 497,700
Notes payable	-	-	-	-	2,479
Homebuilding line of credit	-	-	-	-	-
Mortgage line of credit	70,147	130,467	156,532	135,478	79,240
Total debt and lines of credit	$ 1,067,238	$ 1,127,149	$ 1,152,829	$ 881,788	$ 579,419
Stockholders Equity	$ 1,476,013	$ 2,161,882	$ 1,952,109	$ 1,418,821	$ 1,015,920
Stockholders Equity per Outstanding Share	$ 32.05	$ 47.87	$ 43.74	$ 32.80	$ 24.06

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	Year Ended December 31,				
	2007	2006	2005	2004	2003
OPERATING DATA					
Homes closed (units)	8,195	13,123	15,307	13,876	11,211
Average selling price per home closed	$ 337.5	$ 354.4	$ 313.1	$ 282.7	$ 253.9
Orders for homes, net (units)	6,504	10,229	15,334	14,248	12,630
Homes in Backlog at period end (units)	1,947	3,638	6,532	6,505	5,593
Estimated Backlog sales value at period end	$ 650,000	$ 1,300,000	$ 2,440,000	$ 1,920,000	$ 1,600,000
Estimated average selling price of homes in Backlog	$ 333.8	$ 357.3	$ 373.5	$ 295.2	$ 286.1
Active subdivisions at year-end	278	306	292	242	198
Average active subdivisions	302	298	273	222	195
Cash Flows From					
Operating activities	$ 592,583	$ 363,048	$ (424,929)	$ (27,779)	$ 82,322
Investing activities	$ (1,447)	$ (10,221)	$ (22,889)	$ (29,917)	$ (6,785)
Financing activities	$ (94,320)	$ (59,411)	$ 261,390	$ 288,366	$ 67,481

Seasonality and Variability in Quarterly Results

Prior to 2006, the Company experienced seasonality and quarter-to-quarter variability in homebuilding activity levels. During 2007, this seasonal pattern in the homebuilding industry was not apparent. The seasonal nature of our homebuilding and mortgage lending business are described in more detail in Item 1A, *Risk Factors Relating to Our Business*. The following table reflects our unaudited summarized quarterly consolidated financial and operational information for the two years ended December 31, 2007 (in thousands, except per share and unit amounts). See **Forward-Looking Statements** above.

	Quarter			
	Fourth	Third	Second	First
2007				
Home sales revenue	$ 715,244	$ 651,124	$ 687,813	$ 711,800
Total revenue	$ 784,756	$ 686,661	$ 716,708	$ 745,124
Asset impairments	$ 175,199	$ 248,950	$ 161,050	$ 141,422
General and administrative expenses(1)	$ 59,486	$ 76,482	$ 80,090	$ 90,657
Net loss(2)	$ (281,092)	$ (155,378)	$ (106,072)	$ (94,398)
Orders for homes, net (units)	748	1,228	1,970	2,558
Homes closed (units)	2,200	1,963	2,031	2,001
Homes in Backlog at period end (units)	1,947	3,399	4,134	4,195
Estimated Backlog sales value at period end	$ 650,000	$ 1,210,000	$ 1,480,000	$ 1,500,000
Loss per share				
Basic	$ (6.14)	$ (3.40)	$ (2.32)	$ (2.07)
Diluted	$ (6.14)	$ (3.40)	$ (2.32)	$ (2.07)
Weighted-Average Shares Outstanding				
Basic	45,772	45,751	45,722	45,501
Diluted	45,772	45,751	45,722	45,501

(1) General and administrative expenses for the 2007 fourth quarter include the impact of approximately $10 million of accruals from prior quarters which were reversed in the fourth quarter due to changes in the estimated and actual 2007 bonus payments.

(2) Net loss in the 2007 fourth quarter includes the impact of recording a valuation allowance of $160.0 million against our deferred tax assets.

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	Quarter			
	Fourth	Third	Second	First
2006				
Home sales revenue	$ 1,294,140	$ 1,050,700	$ 1,188,561	$ 1,117,155
Total revenue	$ 1,343,413	$ 1,080,923	$ 1,231,981	$ 1,145,425
Asset impairments	$ 91,252	$ 19,915	$ 260	$ 600
General and administrative expenses	$ 92,284	$ 99,779	$ 115,551	$ 111,265
Net (loss) income	$ (6,365)	$ 48,706	$ 76,491	$ 95,421
Orders for homes, net (units)	1,571	2,120	2,738	3,800
Homes closed (units)	3,594	2,955	3,376	3,198
Homes in Backlog at period end (units)	3,638	5,661	6,496	7,134
Estimated Backlog sales value at period end	$ 1,300,000	$ 2,100,000	$ 2,440,000	$ 2,700,000
(Loss) earnings per share				