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, 2008

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, a non-accelerated filer, or smaller reporting company. See the definitions 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 ¨

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, 2008, the aggregate market value of the Registrants common stock held by non-affiliates of the Registrants was $1.4 billion based on the closing sales price of $39.06 per share as reported on the New York Stock Exchange.

As of December 31, 2008, the number of shares outstanding of Registrant s common stock was 46,666,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of part III of this Form 10-K are incorporated by reference from the Registrant s 2009 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, Delaware Valley, which includes Pennsylvania, Delaware and New Jersey, Illinois and Texas, although we began to exit the Illinois market during the 2008 third quarter and we completed our exit of the Texas market during 2007).

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, Florida, Maryland, Nevada, Virginia and West Virginia. This segment also includes Allegiant Insurance Company, Inc., A Risk Retention Group (Allegiant), which provides to its customers, primarily many of our homebuilding subsidiaries and certain subcontractors of these homebuilding subsidiaries, general liability coverage for construction work performed associated with closed homes, 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.

(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 2008 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).

(c) Financial Information About Industry Segments

Note 4 to the Consolidated Financial Statements contains information regarding our reportable segments for each of the years ended December 31, 2008, 2007 and 2006.

(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 land development and home construction. The base selling prices for our homes closed during 2008 ranged primarily from approximately $175,000 to $500,000. We build 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.

Our financial services include subsidiary businesses which primarily provide mortgage financing, title insurance and homeowner insurance for our homebuyers.

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Homebuilding Operations.

Our homebuilding subsidiaries sell and close homes in geographically diverse markets. Our home sales revenue for the years ended December 31, 2008, 2007 and 2006 is set forth in the table below for each market within our homebuilding segments (dollars in thousands).

	Total Homes Sales Revenue			Percent of Total		
	2008	2007	2006	2008	2007	2006
Arizona	$ 284,279	$ 702,418	$ 980,409	21%	26%	21%
California	253,400	588,562	998,471	19%	21%	21%
Nevada	193,640	385,751	872,970	14%	14%	19%
West	731,319	1,676,731	2,851,850	54%	61%	61%
Colorado	202,882	284,419	450,392	15%	10%	10%
Utah	89,500	255,273	277,743	6%	9%	6%
Mountain	292,382	539,692	728,135	21%	19%	16%
Maryland	89,504	149,917	246,492	7%	6%	5%
Virginia	116,867	167,194	378,373	9%	6%	8%
East	206,371	317,111	624,865	16%	12%	13%
Delaware Valley	36,986	80,057	80,966	2%	3%	2%
Florida	80,132	129,880	262,209	6%	5%	6%
Illinois	25,742	39,126	63,925	2%	1%	1%
Texas	-	3,369	65,560	0%	0%	1%
Other Homebuilding	142,860	252,432	472,660	10%	9%	10%
Intercompany adjustments	(14,784)	(19,985)	(26,954)	-1%	-1%	0%
Total	$ 1,358,148	$ 2,765,981	$ 4,650,556	100%	100%	100%

Economies of Scale. We believe that, notwithstanding the substantial reduction in the size of our homebuilding business, our scale of operations has afforded us benefits such as:

- the ability to sustain operations in most of our markets (although we may choose not to do so);
- 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, 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, purchasing, and office staff. The Company s organizational structure, (i.e. the grouping and reporting of subdivisions and divisions), changes based upon the current needs of the Company. At December 31, 2008 and 2007, we had 10 and 12 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 Committee (AMC). Our

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AMC is comprised of the COO and two of the Company s corporate officers or employees. The AMC reviews and approves all subdivision acquisition transactions in accordance with land resource allocation decisions made by the CODMs. Land acquisition transactions may not proceed without approval by the AMC and/or our CODMs. 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; 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 has primary responsibility for:

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

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 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 different costs (e.g. land acquisition costs), homebuyer demand, home prices offered by our competitors, market conditions impacting our sub-markets such as home foreclosure levels, 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 our efforts to mitigate the risk of carrying excess inventory, we have developed procedures through which we attempt to control the number of our unsold homes under construction and the number of homes in inventory due to 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, 2008	**December 31, 2007**	**December 31, 2006**
Unsold Homes Under Construction - Final	451	515	476
Unsold Homes Under Construction - Frame	329	656	573
Unsold Homes Under Construction - Foundation	41	229	400
Total Unsold Homes Under Construction	821	1,400	1,449
Sold Homes Under Construction	409	1,350	2,430
Model Homes	387	730	757
Homes Completed or Under Construction	1,617	3,480	4,636

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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 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. 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 may be required to forfeit the option deposit. Our option contracts generally do not contain provisions requiring our specific performance. During the years ended December 31, 2008, 2007 and 2006, we wrote-off lot option deposits and pre-acquisition costs of $6.7 million, $23.4 million and $29.7 million, respectively, which have been included in general and administrative expense in the Consolidated Statements of Operations. At December 31, 2008, we had the right to acquire 2,358 lots under option contracts, with non-refundable cash and letters of credit option deposits of $5.1 million and $4.4 million at risk and $1.0 million in capitalized pre-acquisition costs.

From time to time, we may 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, 2008, 2007 and 2006 (in thousands).

	December 31,		
	2008	**2007**	**2006**
West	$ 58,244	$ 226,621	$ 980,666
Mountain	109,578	205,983	282,063
East	43,173	87,118	185,627
Other Homebuilding	10,827	34,614	126,802
Total	$ 221,822	$ 554,336	$ 1,575,158

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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, 2008, 2007 and 2006 (in units).

	December 31, 2008	2007	2006
Lots Owned			
West	3,408	6,009	11,917
Mountain	3,239	3,855	4,664
East	417	671	1,171
Other Homebuilding	513	980	1,658
Total	7,577	11,515	19,410
Lots Controlled Under Option			
West	716	673	1,381
Mountain	184	262	892
East	947	1,869	3,341
Other Homebuilding	511	811	2,483
Total	2,358	3,615	8,097
Total Lots Owned and Controlled	9,935	15,130	27,507

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

	December 31, 2008	2007	2006
Cash	$ 5,145	$ 6,292	$ 20,228
Letters of Credit	4,358	6,547	14,224
Total Non-refundable Option Deposits	$ 9,503	$ 12,839	$ 34,452

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 for warranty-related work are determined based upon historical experience with respect to similar home

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styles and geographical areas. Certain factors are considered in determining the per-house reserve amount, including: (1) trends in the historical warranty payment levels, including the historical amount paid as a percent of home construction costs; (2) the historical range of amounts paid per house; (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) expertise of division personnel.

Seasonal Nature of Business. Prior to 2007, we experienced noticeable 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. During 2008 and 2007, this seasonality pattern was not apparent in our financial and operating results has not been as discernable during the past two years. The seasonal nature of our business is described in more detail in Item 1A, *Risk Factors Relating to our Business*.

Backlog. At December 31, 2008 and 2007, homes under contract but not yet delivered (Backlog) totaled 533 and 1,947, respectively, with an estimated sales value of $173 million and $650 million, respectively. Our Cancellation Rates (as defined below) were 45% and 48% for the years ended December 31, 2008 and 2007, respectively. We define our home order Cancellation Rate as the approximate number of cancelled home order contracts during a reporting period as a percent of total home order contracts received during such reporting period. We anticipate that homes in Backlog at December 31, 2008 will close during 2009 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, 2008 may be impacted by, among other things, subsequent home order cancellations and incentives provided after contract but prior to closing. See **Forward-Looking Statements** above.

The table below discloses our Backlog for the years ended December 31, 2008 and 2007 for each market within our homebuilding segments (dollars in thousands).

	December 31,		Increase (Decrease)	
	2008	**2007**	**Amount**	**%**
Backlog (*Units*)				
Arizona	158	592	(434)	-73%
California	49	203	(154)	-76%
Nevada	53	307	(254)	-83%
West	260	1,102	(842)	-76%
Colorado	72	213	(141)	-66%
Utah	42	178	(136)	-76%
Mountain	114	391	(277)	-71%
Maryland	58	126	(68)	-54%
Virginia	36	100	(64)	-64%
East	94	226	(132)	-58%
Delaware Valley	27	57	(30)	-53%
Florida	35	125	(90)	-72%
Illinois	3	46	(43)	-93%
Other Homebuilding	65	228	(163)	-71%
Total	533	1,947	(1,414)	-73%
Estimated Backlog Sales Value	$ 173,000	$ 650,000	$ (477,000)	-73%

Estimated Average Sales Price in Backlog	$	324.6	$	333.8	$	(9.2)	-3%

Our Backlog at December 31, 2008 decreased significantly from levels at December 31, 2007 for each market within our homebuilding segments, primarily resulting from: an overall deterioration in demand for new homes as potential homebuyers have been hesitant in making new home purchases during this downcycle in the homebuilding industry; reduced availability of credit for homebuyers caused by tightened mortgage loan underwriting criteria; and homebuyers inability to sell their current homes. The decrease in estimated Backlog sales value at December 31, 2008, compared with December 31, 2007, primarily was due to the 73% decrease in the number of homes in Backlog. Additionally, the estimated average sales price for homes in Backlog of $324,600 is higher than the estimated average selling prices of orders for homes and average selling price of closed homes during the year ended December 31, 2008, primarily due to additional incentives which may be offered during the home closing process.

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 making improvements in our customers complete home buying and homeownership experience.

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 Homes 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 and Homebuyer Resource Centers through our richmondamerican.com website and various advertising outlets. In addition, our in-house corporate communications team manages our public relations and employee communications, and maintains our 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 developing our Richmond American Homes brand.

Our home sales strategy is directed at communicating the inherent value of our homes to our prospective homebuyers and distinguishing our product and pricing (including incentives) from that of our competitors or other home buying opportunities. In the sales process, we negotiate the terms of a home sales contract with a prospective homebuyer, including base sales price, any options and upgrades (such as upgraded appliances, cabinetry, flooring, etc.), and any home sales incentives. Our incentives generally come in the form of: (1) discounts on the sales price of the home; (2) homebuyer closing cost assistance paid by Richmond American Homes to a third-party; and (3) mortgage loan origination fees paid by Richmond American Homes to HomeAmerican. The combination of incentives offered to prospective homebuyers may vary from subdivision-to-subdivision and from home-to-home, and may be revised during the home closing process based upon homebuyer preferences or upon changes in market conditions, such as changes in our competitors pricing.

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. Our Home Gallery concept provides 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 home from us. Prospective homebuyers can receive individualized attention from a trained team of new home specialists, resulting in a more focused, efficient home search.

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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*.

Performance Bonds and Letters of Credit. We are often required to obtain performance bonds and/or letters of credit in support of our obligations primarily for land development and subdivision improvements, homeowner association dues and start-up expenses, warranty work, contractor license fees and earnest money deposits. At December 31, 2008 and 2007, we had outstanding performance bonds totaling $172.3 million and $281.6 million, respectively, and letters of credit totaling $37.4 million and $51.2 million, respectively, including $9.1 million and $16.4 million, respectively, issued by HomeAmerican. 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.

In certain states, we are restricted from using earnest money deposits (Deposits) for general purposes, unless we take measures to release state imposed restrictions on the Deposits received from homebuyers in conjunction with home sales, which may include posting blanket security bonds. In this regard, at December 31, 2008 and 2007, we had $4.5 million and $8.5 million, respectively, outstanding in blanket security bonds used to release restrictions on certain Deposits. Additionally, we had $0.7 million and $1.9 million in restricted cash related to Deposits at December 31, 2008 and 2007, respectively. We monitor the amount of Deposits we hold in certain states to confirm that our blanket security bonds exceed the amount of the Deposits.

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 (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac) (together the government sponsored entities) and other 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.

Effective November 12, 2008, we began to use HomeAmerican s mortgage repurchase facility, in addition to Company generated funds, to finance the origination of mortgage loans until they are sold. Prior to November 12, 2008, we used HomeAmerican s secured warehouse line of credit 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

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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.

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, 2008 consisted of 659 mortgage loans with an unpaid principal balance of approximately $89.7 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 Countrywide Home Loans, Inc. and its affiliates (Countrywide). During the years ended December 31, 2008, 2007 and 2006, HomeAmerican sold approximately 23%, 51% and 54%, respectively, of the mortgage loans it originated to Countrywide. During the years ended December 31, 2008 and 2007, HomeAmerican increased the volume of loans sold to Wells Fargo Funding, Inc. to approximately 59% and 23% of mortgage loans sold during 2008 and 2007, respectively. Additionally, during the year ended December 31, 2008, HomeAmerican increased the volume of mortgage loans sold to Chase Manhattan Mortgage Corporation and its affiliates to approximately 13%.

Pipeline. HomeAmerican s mortgage loans in process that had not closed (the Pipeline) at December 31, 2008 had an aggregate principal balance of approximately $29.7 million, of which $25.2 million were under interest rate lock commitments (IRLC) at an average interest rate of 4.96%. In addition, HomeAmerican had $68.6 million of mortgage loans held-for-sale at December 31, 2008. 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 held-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 economic hedging activity, 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 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 $3.0 million per occurrence, subject to various aggregate limits, which do not exceed $18.0 million 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 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. As insurance companies organized under Hawaii s 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 may be required to comply with certain 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 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, Florida, 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, 2008 and 2007.

	December 31,	
	2008	2007
Homebuilding segments	932	1,700
Financial Services and Other	102	180
Corporate	241	290
Consolidated	1,275	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 continue to experience uncertainty and reduced demand for new homes, which negatively impacted our financial and operating results during the year ending December 31, 2008. High levels of national and international concern over instability in the credit markets have exacerbated the decline in demand for new homes. The conditions experienced during 2008 include, among other things: the announced existence of a national recession; increases in unemployment levels; continuing concerns over the effects of asset valuations on the banking system and financial markets; reduced availability of mortgage loan financing; reduced consumer confidence; fluctuating energy costs; the absence of home price stability; and continued declines in the value of new homes.

If the downturn in the homebuilding and mortgage lending industries continues or intensifies, or if the national economy weakens further and the recession continues or intensifies, we could continue to experience declines in the market value of our inventory and demand for our homes, which could have a significant negative impact on our Home Gross Margins and financial and operating results. Additionally, if energy costs should increase, demand for our homes could be adversely impacted (because we are primarily a suburban residential builder), and the cost of building homes may increase, both of which could have a significant negative impact on our Home Gross Margins and financial and operating results.

Additionally, as a result of the difficult economic environment, we may be subject to increased counterparty risks whereby third-parties, which may include, among others, banks under our Homebuilding Line and Mortgage Repurchase Facility, may not be willing or able to perform on obligations to the Company. To the extent a third-party is unable to meet its obligations to the Company, our financial position, results of operations and/or cash flows could be negatively impacted.

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 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 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 2008, can cause us to decrease our home sales prices and/or increase 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.

Through our mortgage lending subsidiary, HomeAmerican, we 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 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, home foreclosure levels, 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. Under 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.

Our strategies in responding to the adverse conditions in the homebuilding industry and overall recession in the U.S. economy have had limited success, and the continued implementation of these and other strategies may not be successful.

While we have been successful in generating positive operating cash flow and reducing our inventories during the years ended December 31, 2008 and 2007, we have done so generally with significantly reduced Home Gross Margins and have incurred significant asset impairment charges during each of the past two calendar years. While we continue to monitor and modify our strategies in responding to the current economic environment, the effectiveness of these strategies in future reporting periods is unknown. To the extent they are not successful, our financial and operating results may be adversely impacted.

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

During the years ended December 31, 2008, 2007 and 2006, our Cancellation Rates remained high relative to our Cancellation Rates during 2005 and 2004, which has negatively impacted the number of closed homes, net home orders, home sales revenue and our results of operations, as well as the number of homes in Backlog. Home order cancellations can result from a number of factors, including declines, 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 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 continue to decline. 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 home 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.

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 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. Additionally, while certain governmental organizations and other mortgage industry participants have taken steps 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.

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 and leverage ratio, as defined. 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.

In the ordinary course of business, we are required to obtain performance 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 performance bonds. If we were unable to obtain surety bonds when required, our results of operations and/or cash flows could be adversely impacted.

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.

The Company is subject to risks associated with mortgage loans, including, among others, previously originated and sold Alt-A (as defined below), and sub-prime mortgage loans (as defined below), second mortgage loans, high loan-to-value mortgage loans and jumbo mortgage loans (mortgage loans with a 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 could have a substantial impact on 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.

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Additionally, during 2006 and 2005, HomeAmerican originated a significant number of second mortgage loans and Alt-A loans. However, during 2007 and continuing throughout 2008, 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 and Non-Agency (defined as not being FHA, VA 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 non-government insured mortgage loans that have Fair, Isaac & Company (FICO) scores less than or equal to 620. In the event we experience a significant increase in the number of Alt-A mortgage loans originated prior to 2008 that we are required to repurchase, our results of operations and cash flows would be adversely impacted.

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. 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.

Our homebuilding and financial services operations have concentration risks that could impact our results of operations.

We conduct a significant portion of our business in the Arizona, Colorado and Nevada markets and have generated a disproportionate amount of our revenue in these markets. In each of these markets we experienced deterioration in the demand for new homes and declines in the market value of our homes during 2008, 2007 and 2006. 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.

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 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. 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. Additionally, pending changes to the Real Estate Settlement Procedures Act (RESPA) could have a significant impact on the ability of our affiliated businesses to provide services to Richmond American Homes customers, which could have a significant negative impact on our financial and operating results.

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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 can be high and the amount of coverage offered by insurance companies is currently limited. This coverage may be 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.

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 income 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 or benefit and other tax liabilities. As each audit is conducted, adjustments, if any, are 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 liabilities, 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.

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

Prior to 2007, we experienced noticeable 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 2008 and 2007, this seasonality pattern was not apparent in our financial or operating results. However, the extent to which our historical seasonality pattern contributed to actual 2008 home sales and closing levels is unknown, and there can be no assurances that this seasonality pattern will be apparent in future reporting periods.

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 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, 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 during this recession. 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.

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

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 may be negatively impacted.

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.

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, 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 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 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 office 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, 2008. We are satisfied with the suitability and capacity of our office locations.

	Number of Leased Facilities	Total Square Footage Leased
Arizona	5	89,000
California	7	97,000
Colorado	6	231,000
Delaware Valley	3	15,000
Florida	2	21,000
Illinois	1	10,000
Maryland	2	13,000
Nevada	3	40,000
Utah	2	19,000
Virginia	3	39,000
Totals	34	574,000

Item 3. Legal Proceedings.

Because of the nature of the homebuilding business, 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 and product liability 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.

On September 16, 2008, MDC delivered a timely redemption request to The Reserve Funds (the Reserve) to redeem $24.955 million from the Reserve s Primary money market fund (the Primary Fund). The Reserve announced on September 16, 2008 that all Primary Fund redemption requests received before 3:00 p.m. that day would be redeemed at $1.00 per share. Then, on September 17, 2008, MDC delivered a timely redemption request to the Reserve to redeem $90.1 million from the Reserve s Government money market fund (the Government Fund). Despite representations by the Reserve that each redemption would be paid the same day as the redemption request, the Reserve did not do so and continued to fail to pay the redemption amounts to MDC. Accordingly, on September 19, 2008, MDC filed suit against the Reserve in the United States District Court for the Southern District of New York in an action entitled M.D.C. Holdings, Inc. v. The Reserve Funds, et al., Civil Action No. 08-cv-8141. MDC filed this action to enforce its redemptions from the Primary Fund and the Government Fund and to recover damages caused by the Reserve s failure to pay the redemption amounts.

On September 22, 2008, the Reserve filed an application with the SEC to extend the time within which it was required to satisfy redemption requests regarding the Primary Fund and the Government Fund. On September 22, 2008, the SEC issued an order approving the request. The Reserve

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subsequently announced that distributions were subject to the supervision of the SEC. As of the date hereof, MDC has received payment of $19.7 million from the Primary Fund and $90.1 million from the Government Fund. MDC intends to maintain the litigation to collect the remainder of its funds together with associated damages from the Primary Fund and the Government Fund.

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 2008.

PART II

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

At December 31, 2008, MDC had 732 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 closing price ranges of MDC s common stock.

	Three Months Ended			
	March 31	June 30	September 30	December 31
2008				
High	$ 46.94	$ 46.02	$ 43.66	$ 37.61
Low	$ 31.34	$ 38.31	$ 34.75	$ 22.74
2007				
High	$ 60.00	$ 54.73	$ 50.33	$ 43.10
Low	$ 47.75	$ 47.54	$ 40.31	$ 32.34

The following table sets forth the cash dividends declared and paid in 2008 and 2007 (dollars in thousands, except per share amounts).

	Date of Declaration	Date of Payment	Dividend per Share	Total Dividends Paid
2008				
First quarter	January 29, 2008	February 26, 2008	$ 0.25	$ 11,517
Second quarter	April 29, 2008	May 28, 2008	0.25	11,587
Third quarter	July 28, 2008	August 26, 2008	0.25	11,631
Fourth quarter	October 28, 2008	November 26, 2008	0.25	11,656
			$ 1.00	$ 46,391
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

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 December 22, 2008), which has a total commitment of $800 million. Pursuant to the terms of this amended agreement, dividends may be declared or paid by us if we are in compliance with certain

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stockholders equity and debt coverage tests. As a result, we had a permitted dividend capacity of approximately $184 million pursuant to the most restrictive of these covenants.

On January 26, 2009, 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 25, 2009 to shareowners of record on February 11, 2009.

There were no shares of MDC common stock repurchased during the years ended December 31, 2008, 2007 or 2006. At December 31, 2008, 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, 2008.

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

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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).

SELECTED FINANCIAL DATA

	Year Ended December 31,				
	2008	**2007**	**2006**	**2005**	**2004**
INCOME STATEMENT DATA					
Home sales revenue	$ 1,358,148	$ 2,765,981	$ 4,650,556	$ 4,792,700	$ 3,922,837
Total revenue[(1)]	$ 1,458,108	$ 2,885,659	$ 4,793,569	$ 4,880,067	$ 4,003,359
Home cost of sales	$ 1,184,865	$ 2,380,427	$ 3,619,656	$ 3,436,035	$ 2,834,092
Asset impairments	$ 298,155	$ 726,621	$ 112,027	$ -	$ -
General and administrative expenses	$ 198,689	$ 306,715	$ 418,879	$ 401,184	$ 327,812
(Loss) income before income taxes[(2)]	$ (382,135)	$ (756,464)	$ 333,137	$ 808,763	$ 636,914
Net (loss) income[(3)]	$ (380,545)	$ (636,940)	$ 214,253	$ 505,723	$ 391,165
Basic (loss) earnings per common share	$ (8.24)	$ (13.94)	$ 4.77	$ 11.48	$ 9.19
Diluted (loss) earnings per common share	$ (8.24)	$ (13.94)	$ 4.66	$ 10.99	$ 8.79
Weighted-average shares outstanding					
Basic	46,159	45,687	44,952	44,046	42,560
Diluted[(4)]	46,159	45,687	45,971	46,036	44,498
Dividends declared per share	$ 1.00	$ 1.00	$ 1.00	$ 0.76	$ 0.43

(1) Prior to 2008, the Company included interest income, interest expense and gain (loss) on the sale of other assets as a component of other revenue in the Consolidated Statements of Operations. During 2008, the Company reclassified these amounts from other revenue and has included them as a component of other income (expense) in the Consolidated Statements of Operations. Accordingly, total revenue has been adjusted by ($47,590), ($8,173), ($4,822) and ($5,643) for the years ended December 31, 2007, 2006, 2005 and 2004, respectively, as a result of this reclassification.

(2) Loss before income taxes for the year ended December 31, 2008 includes the impact of recording to interest expense $18.0 million of interest incurred on our senior notes that could not be capitalized as a result of the significant decrease in inventory levels during 2008 that are actively being developed.

(3) Net loss for the years ended December 31, 2008 and 2007 includes the impact of recording a valuation allowance of $134.3 million and $160.0 million, respectively, against our deferred tax assets.

(4) 526,060 shares and 758,899 shares of common stock equivalents (as described in Note 1 to the Consolidated Financial Statements) have been excluded from the diluted weighted-average shares outstanding for the years ended December 31, 2008 and 2007, respectively, because the effect of their inclusion would be anti-dilutive, or would decrease the reported diluted loss per share.

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	December 31,				
	2008	2007	2006	2005	2004
BALANCE SHEET DATA					
Assets					
Cash and cash equivalents	$ 1,304,728	$ 1,004,763	$ 507,947	$ 214,531	$ 400,959
Housing completed or under construction	$ 415,500	$ 902,221	$ 1,178,671	$ 1,320,106	$ 887,002
Land and land under development	$ 221,822	$ 554,336	$ 1,575,158	$ 1,677,948	$ 1,129,266
Total assets(5)	$ 2,474,938	$ 3,012,764	$ 3,909,875	$ 3,859,850	$ 2,844,731
Debt and Lines of Credit					
Senior notes	$ 997,527	$ 997,091	$ 996,682	$ 996,297	$ 746,310
Homebuilding line of credit	-	-	-	-	-
Mortgage repurchase facility	34,873	-	-	-	-
Mortgage line of credit	-	70,147	130,467	156,532	135,478
Total debt and lines of credit	$ 1,032,400	$ 1,067,238	$ 1,127,149	$ 1,152,829	$ 881,788
Stockholders Equity	$ 1,080,920	$ 1,476,013	$ 2,161,882	$ 1,952,109	$ 1,418,821
Stockholders Equity per Outstanding Share	$ 23.16	$ 32.05	$ 47.87	$ 43.74	$ 32.80

(5) Prior to 2008, we included our FIN 48 income tax liability as a component of income taxes receivable on the Consolidated Balance Sheets. During 2008, we reclassified our FIN 48 income tax liability and it is now included as a component of accrued liabilities on the Consolidated Balance Sheets. Accordingly, total assets at December 31, 2007 has been adjusted by $(56,527) as a result of this reclassification.

	Year Ended December 31,				
	2008	2007	2006	2005	2004
OPERATING DATA					
Homes closed (units)	4,488	8,195	13,123	15,307	13,876
Average selling price per home closed	$ 302.6	$ 337.5	$ 354.4	$ 313.1	$ 282.7
Orders for homes, net (units)	3,074	6,504	10,229	15,334	14,248
Homes in Backlog at period end (units)	533	1,947	3,638	6,532	6,505
Estimated Backlog sales value at period end	$ 173,000	$ 650,000	$ 1,300,000	$ 2,440,000	$ 1,920,000
Estimated average selling price of homes in Backlog	$ 324.6	$ 333.8	$ 357.3	$ 373.5	$ 295.2
Active subdivisions at year-end	191	278	306	292	242
Cash Flows From					
Operating activities	$ 479,511	$ 592,583	$ 363,048	$ (424,929)	$ (27,779)
Investing activities(6)	$ (113,439)	$ (1,447)	$ (10,221)	$ (22,889)	$ (29,917)
Financing activities	$ (66,107)	$ (94,320)	$ (59,411)	$ 261,390	$ 288,366

(6) Investing activities during the year ended December 31, 2008 include the purchase of $54.9 million in short-term investments, net of maturities, and $58.1 million in use of cash for unsettled trades, net of settlements associated with The Reserve Primary Fund and The Reserve U.S. Government Fund.

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Seasonality and Variability in Quarterly Results

Prior to 2007, the Company experienced noticeable seasonality and quarter-to-quarter variability in homebuilding activity levels. During 2008 and 2007, this seasonal pattern in the homebuilding industry was not as apparent in our financial and operating results. 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 each of the twelve months ended December 31, 2008 and 2007 (in thousands, except per share and unit amounts). See **Forward-Looking Statements** above.

	Quarter			
	Fourth	Third	Second	First
2008				
Home sales revenue	$ 283,519	$ 336,744	$ 382,093	$ 355,792
Total revenue(7)	$ 296,208	$ 362,701	$ 403,421	$ 395,778
Asset impairments	$ 59,657	$ 95,388	$ 88,278	$ 54,832
General and administrative expenses(8)	$ 48,413	$ 51,596	$ 45,768	$ 52,912
Loss before income taxes(9)	$ (86,395)	$ (116,974)	$ (101,540)	$ (77,226)
Net loss	$ (89,028)	$ (117,971)	$ (100,726)	$ (72,820)
Orders for homes, net (units)	350	667	959	1,098
Homes closed (units)	944	1,116	1,292	1,136
Homes in Backlog at period end (units)	533	1,127	1,576	1,909
Estimated Backlog sales value at period end	$ 173,000	$ 364,000	$ 522,000	$ 623,000
Loss per share				
Basic	$ (1.92)	$ (2.55)	$ (2.18)	$ (1.58)
Diluted	$ (1.92)	$ (2.55)	$ (2.18)	$ (1.58)
Weighted-Average Shares Outstanding				
Basic	46,352	46,219	46,110	45,953
Diluted	46,352	46,219	46,110	45,953

(7) Prior to the 2008 fourth quarter, we included interest income, interest expense and gain (loss) on the sale of other assets as a component of other revenue in the Consolidated Statements of Operations. During the 2008 fourth quarter, we reclassified these amounts from other revenue and have included them as a component of other income (expense) in the Consolidated Statements of Operations. Accordingly, total revenue has been adjusted by ($10,367), ($8,477) and $1,452 for the quarters ended March 31, June 30 and September 30, 2008, respectively, as a result of this reclassification.

(8) During the 2008 second quarter, we recorded adjustments to reduce general and administrative expenses by $7.1 million: (i) to decrease legal expenses as a result of resolving construction defect claims, the costs of which are now expected to be paid by third-party insurance carriers; and (ii) to reduce warranty reserves that were established through general and administrative expenses during previous reporting periods.

(9) The Company incurred $10.7 million and $7.3 million of interest during the three months ended September 30 and December 31, 2008, respectively, that could not be capitalized and, as such, was recorded to interest expense in the Consolidated Statements of Operations. See Note 16 to the Consolidated Financial Statements.

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	Quarter			
	Fourth	Third	Second	First
2007				
Home sales revenue	$ 715,244	$ 651,124	$ 687,813	$ 711,800
Total revenue(10)	$ 772,115	$ 669,232	$ 707,538	$ 736,774
Asset impairments	$ 175,199	$ 248,950	$ 161,050	$ 141,422
General and administrative expenses(11)	$ 59,486	$ 76,482	$ 80,090	$ 90,657
Loss before income taxes	$ (190,441)	$ (251,314)	$ (171,028)	$ (143,681)
Net loss(12)	$ (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

(10) Prior to the 2008 fourth quarter, we included interest income, interest expense and gain (loss) on the sale of other assets as a component of other revenue in the Consolidated Statements of Operations. During the 2008 fourth quarter, we reclassified these amounts from other revenue and have included them as a component of other income (expense) in the Consolidated Statements of Operations. Accordingly, total revenue has been adjusted by ($8,350), ($9,170), ($17,429) and ($12,641) for the quarters ended March 31, June 30, September 30 and December 31, 2007, respectively, as a result of this reclassification.

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

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

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.

EXECUTIVE SUMMARY

The homebuilding and mortgage lending industries continued to experience significant deterioration in demand, as potential homebuyers delayed or refrained from purchasing new homes, which has negatively impacted our financial and operating results during the year ended December 31, 2008. Widespread national and international concern over instability in the credit and capital markets increased significantly during 2008 and most notably during the second half of 2008 with widespread market volatility and disruption in the economy of the United States and abroad. This continued to make home purchases significantly more difficult for our prospective customers. Also, the onset of a recession became a reality, highlighted by higher unemployment levels, gross domestic product declines, further deterioration in consumer confidence and reduced consumer spending, which made the housing industry downturn more pronounced in 2008 than in 2007. We believe that stability in the credit and capital markets and an eventual renewal of confidence in the United States and global economy will play a major role in any turnaround in the homebuilding and mortgage lending industries. See **Forward-Looking Statements** above.

Additionally, during 2008 the mortgage finance, banking and insurance industries underwent unprecedented transformations, including the failure or takeover of a number of major industry leaders as well as governmental intervention in and support of the businesses of many of the surviving entities. While the United States government did respond by taking steps in an attempt to stabilize the banking system and financial markets through, among other things, the Emergency Economic Stabilization Act of 2008 (EESA), the future impact of EESA and other legislation or proposed legislation on the financial markets, and the timing of an eventual turnaround in the homebuilding industry, remains unclear. See **Forward-Looking Statements** above.

Our homebuilding segments and our Financial Services and Other segment continued to be impacted by the downturn in the homebuilding and mortgage lending industries, the volatility in the banking system and financial markets during 2008 and the reality of a recession in the United States economy, due to, among other things, on-going homebuyer concerns about the decline in the market value of homes over the past two years, reduced availability of credit for homebuyers caused by tightened mortgage loan underwriting criteria, an overall reduction in liquidity in the mortgage industry, significant declines in consumer confidence, an overall weakening economy, including declines in overall economic activity, fear of and actual job losses, and heightened concerns regarding the affordability of homes. These economic conditions continued to have a significant negative impact on our homebuilding operations during 2008 through: (1) increases in competition for new home orders driven by builders that significantly cut new home sales prices and/or offered down payment assistance programs to their prospective homebuyers; (2) continued high levels of home sales incentives and, in many cases, increased home sales incentives offered to stimulate new home orders and maintain previous home orders in Backlog (as defined below) until they close; (3) high levels of home foreclosures, which contributed to an excess supply of homes available to be purchased; (4) prospective homebuyers experiencing increased difficulty in selling their existing homes in this increasingly competitive environment; and (5) reduced affordability of homes, partially due to the increased difficulty confronted by homebuyers in trying to qualify for mortgage loans or provide sufficient down payments for mortgage loans for which they qualify. Additionally, while down payment assistance programs have been eliminated effective October 1, 2008 for our competitors, our 2008 home sales levels were impacted negatively as we had not participated in offering down payment assistance programs during 2008.

These economic conditions contributed to the significant shift from Prime (as defined below) mortgage loans to government mortgage loans for our homebuyers. Also, we continued to recognize impairments of our inventories, although at significantly lower levels than in 2007, for most of our homebuilding segments. As a consequence, we incurred pre-tax losses of $382.1 million during the year ended December 31, 2008 compared with pre-tax losses of $756.5 million during 2007. In response to the difficult conditions outlined above, we remain focused on our balance sheet and cash flows, as evidenced by having no outstanding borrowings on our Homebuilding Line (as defined below) and generating $479.5 million in cash from operations during 2008, which contributed to our December 31, 2008 cash and cash equivalent balances increasing to $1.3 billion from $1.0 billion at December 31, 2007. We also remain focused on closely monitoring our general and administrative expenses and continuing to find efficiencies in managing our Company s operations.

Recognizing the challenges presented by the downturn in the homebuilding and mortgage lending businesses, during the year ended December 31, 2008, our management focused on the following:

- Investing in the development of a new enterprise resource planning system and a Company-wide multi-year initiative focused on streamlining our operating and construction processes and financial and operating systems, in an effort to increase efficiencies and standardization in our business practices nationwide;

- Developing and/or enhancing relationships with investors, banks and other homebuilders for purposes of identifying business opportunities and future sources of residential lot investments;

- Right-sizing our operations, primarily by: (1) consolidating our homebuilding divisions to 10 as of December 31, 2008 from 12 at December, 31, 2007, which included our decision to exit the Illinois market; and (2) reducing the number of our employees to approximately 1,275 at December 31, 2008 from approximately 2,170 at December 31, 2007;

- Continuing to evaluate the best use of our land positions, which resulted in the second consecutive year in which we sold a significant number of lots in order to: (1) reduce our exposure to declines in the market value of land; (2) realize taxable losses; and (3) contribute to the increase in our cash, cash equivalents and short-term investments;

- Decreasing our unsold homes under construction to 821 at December 31, 2008 from 1,400 at December 31, 2007 and decreasing our model homes to 387 at December 31, 2008 from 730 at December 31, 2007;

- Lowering our portfolio of lots owned and controlled in each market by limiting the purchase of lots and exercising our right to terminate option contracts for lots that no longer satisfied our underwriting criteria, and constructing, selling and closing homes in the ordinary course of business;

- Continuing our efforts to strengthen our balance sheet and cash flows by limiting our cash outflows through tighter controls over land acquisition and development expenditures; and

- Controlling home construction costs through continued renegotiations of material and labor costs with our suppliers and subcontractors.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The preparation of financial statements in conformity with accounting policies generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Management evaluates

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such estimates and judgments on an on-going basis and makes adjustments as deemed necessary. Actual results could differ from these estimates using different estimates and assumptions, or if conditions are significantly different in the future. See **Forward-Looking Statements** above.

Listed below are those estimates and policies that we believe are critical and require the use of complex judgment in their application. Our critical accounting estimates and policies are as follows and should be read in conjunction with the Notes to our Consolidated Financial Statements.

Homebuilding Inventory Valuation (Held-for-Development). Our homebuilding inventories accounted for on a held-for-development basis include assets associated with subdivisions in which we intend to construct and sell homes on the land. The inventory in our held-for-development subdivisions also includes assets associated with model and speculative homes. Homebuilding inventories that are accounted for as held-for-development are carried at cost unless events and circumstances indicate that the carrying value of the underlying subdivision may not be recoverable. We determine impairments on a subdivision level basis as each such subdivision represents the lowest level of identifiable cash flows. In making this determination, we review, among other things, the following for each subdivision:

- actual and trending Operating Profit (which is defined as home sales revenue less home cost of sales and all direct incremental costs associated with the home closing) for homes closed in the: (1) prior two completed fiscal quarters on an individual basis; (2) current fiscal quarter; (3) last six months; and (4) last twelve months;
- estimated future undiscounted cash flows and Operating Profit;
- forecasted Operating Profit for homes in Backlog;
- actual and trending net and gross home orders;
- base sales price and home sales incentive information for homes that: (1) closed in the prior two completed fiscal quarters; (2) closed in the current fiscal quarter; (3) are in Backlog as of the end of the current fiscal quarter; and (4) are forecasted to close over the remaining life of the subdivision;
- market information for each sub-market, including competition levels, home foreclosure levels and the size and style of homes currently being offered for sale; and
- known or probable events indicating that the carrying value may not be recoverable.

On a quarterly basis, if events or circumstances indicate that the carrying value of our held-for-development inventory may not be recoverable, such assets are reviewed for impairment by comparing the undiscounted estimated future cash flows from an individual subdivision to its carrying value in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144). The evaluation for the recoverability of the carrying value of the assets for each individual subdivision can be impacted significantly by the following:

- estimates of future base selling prices;
- estimates of future home sales incentives; and
- estimates of future home construction and land development costs.

These estimates are dependent on specific market or sub-market conditions for each subdivision. While we consider available information to determine what we believe to be our best estimates as of

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the end of a reporting period, these estimates are subject to change in future reporting periods as facts and circumstances change. Local market-specific conditions that may impact these estimates for a subdivision include:

- historical subdivision results, and actual and trending Operating Profit, base selling prices and home sales incentives;
- forecasted Operating Profit for homes in Backlog;
- the intensity of competition within a market or sub-market, including publicly available home sales prices and home sales incentives offered by our competitors;
- increased levels of home foreclosures;
- the current sales pace for active subdivisions;
- subdivision specific attributes, such as location, availability of lots in the sub-market, desirability and uniqueness of subdivision location and the size and style of homes currently being offered;
- potential for alternative home styles to respond to local market conditions;
- changes by management in the sales strategy of a given subdivision; and
- current local market economic and demographic conditions and related trends and forecasts.

These and other local market-specific conditions that may be present are considered by personnel in our homebuilding divisions as they prepare or update the forecasted assumptions for each subdivision. Quantitative and qualitative factors other than home sales prices could significantly impact the potential for future impairments. The sales objectives can differ among subdivisions, even within a given sub-market. For example, facts and circumstances in a given subdivision may lead us to price our homes with the objective of yielding a higher sales absorption pace, while facts and circumstances in another subdivision may lead us to price our homes to minimize deterioration in our Home Gross Margins, even though this could result in a slower sales absorption pace. Furthermore, the key assumptions included in our estimated future undiscounted cash flows may be interrelated. For example, a decrease in estimated base sales price or an increase in home sales incentives may result in a corresponding increase in sales absorption pace. Additionally, a decrease in the average sales price of homes to be sold and closed in future reporting periods for one subdivision that has not been generating what management believes to be an adequate sales absorption pace may impact the estimated cash flow assumptions of a nearby subdivision. Changes in our key assumptions, including estimated construction and land development costs, absorption pace, selling strategies or discount rates could materially impact future cash flow and fair value estimates. Due to the number of possible scenarios that would result from various changes in these factors, we do not believe it is possible to develop a sensitivity analysis with a level of precision that would be meaningful to an investor.

If the undiscounted future cash flows of a subdivision are less than its carrying value, the carrying value of the subdivision is written down to its then estimated fair value. For subdivisions that continue to be held-for-development, the carrying value is not written up for increases in the estimated fair value of such subdivisions in subsequent reporting periods.

Management determines the estimated fair value of each held-for-development subdivision by determining the present value of the estimated future cash flows at discount rates that are commensurate with the risk of the subdivision under evaluation. The estimated future cash flows are

the same for both our recoverability and fair value assessments. Factors we consider when determining the discount rate to be used for each subdivision include, among others:

- the number of lots in a given subdivision;
- the amount of future land development costs to be incurred;
- risks associated with the home construction process, including the stage of completion for the entire subdivision and the number of owned lots under construction;
- market risks, including volatility in home prices and risks associated with markets with high average selling prices of homes; and
- the estimated remaining lifespan of the subdivision.

Prior to the 2008 third quarter, discount rates used in our estimated discounted cash flow assessments ranged from 10% to 18%. During the 2008 third quarter, we increased the discount rates used in our estimated discounted cash flows to a range of 13% to 21%. This change resulted from our perception of increased risks and uncertainties in the homebuilding industry due to, among other things, the on-going deterioration in the market value of land and homes as well as homebuyers inability to qualify for mortgage loans. The impairment of the Company s held-for-development inventories was increased by approximately $14 million during 2008 as a result of the increase in the estimated discount rates. For our held-for-development inventory, we recorded $174.5 million, $515.6 million and $81.8 million of impairments to our land and land under development during the years ended December 31, 2008, 2007 and 2006, respectively, and $82.6 million, $169.9 million and $25.0 million of impairments to our housing completed or under construction during the years ended December 31, 2008, 2007 and 2006, respectively. We allocate the impairments recorded between housing completed or under construction and land and land under development for each impaired subdivision based upon the status of construction of a home on each lot (i.e. if the lot is in housing completed or under construction, the impairment for that lot is recorded against housing completed or under construction). The allocation of impairment is the same to each lot in a given subdivision. These impairments, together with impairments of our held-for-sale inventory and intangible and other assets, are presented as a separate line in the Consolidated Statements of Operations. Changes in management s estimates, particularly the timing and amount of the estimated future cash inflows and outflows, forecasted average selling prices of homes to be sold and closed and the present value discount rate used in the fair value calculation, can materially affect any impairment calculation. Because our forecasted cash flows are impacted significantly by changes in market conditions, it is reasonably possible that actual results could differ significantly from those estimates.

Homebuilding Inventory Valuation (Held-for-Sale). We record land held-for-sale at the lower of its carrying value or fair value less costs to sell. In accordance with SFAS 144, the classification of land as held-for-sale is based on the following criteria:

- management, having the authority to approve the action, commits to a plan to sell the asset;
- the asset is available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such assets;
- an active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated;

the sale of the asset is probable, and transfer of the asset is expected to qualify for recognition as a completed sale, within one year;

the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and

actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Additionally, in certain circumstances, management will re-evaluate the best use of an asset that is currently being accounted for as held-for-development. In such situations, management will review, among other things: (1) average sales prices for homes that have closed, are in Backlog and forecasted for future sales; (2) current market conditions, including competition levels, estimated levels of competition in future reporting periods and home foreclosure levels; (3) estimated land development costs that have yet to be incurred; and (4) the total number of lots owned in each subdivision and surrounding areas. If, based upon this evaluation, management believes that the best use of the asset is the sale of the asset in its current condition, all or portions of the subdivision will be accounted for as held-for-sale, assuming all of the foregoing held-for-sale criteria have been met at the end of the applicable reporting period.

In performing the impairment evaluation for land accounted for on a held-for-sale basis, management considers, among other things, prices for land in recent comparable sale transactions, internal market analysis studies, which include the estimated price a willing buyer would pay for the land (other than in a forced liquidation) and recent bona fide offers received from outside third-parties. If the estimated fair value less cost to sell an asset is less than the current carrying value, the asset is written down to its estimated fair value less cost to sell. We monitor the fair value of held-for-sale assets on a periodic basis through the disposition date. Subsequent increases in the fair value less cost to sell of a held-for-sale asset, if any, are recognized as a decrease to impairments in our Consolidated Statements of Operations during such subsequent period, but not in excess of the cumulative impairment that was recorded previously while it was a held-for-sale asset. During the years ended December 31, 2008, 2007 and 2006, we recorded impairments on our held-for-sale inventories of $29.6 million, $40.7 million and $2.5 million, respectively.

Warranty Costs. Our homes are sold with limited third-party warranties. 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 designs and geographical areas. Certain factors are considered in determining the per-house reserve amount, including: (1) trends in the historical warranty payment levels, including the historical amount paid as a percent of home construction costs; (2) the historical range of amounts paid per house; (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) expertise of division personnel. Accordingly, the process of determining our warranty reserve balances necessarily requires estimates associated with various assumptions, each of which can positively or negatively impact the warranty reserve balances. We evaluate the per-home reserve percentages at least quarterly and make adjustments, as appropriate, on a division-by-division basis as facts and circumstances change with respect to the factors outlined above.

Warranty payments are tracked on a house-by-house basis and are charged against the warranty reserve established for the house. Payments incurred after the close of a home are monitored to determine their nature and, to the extent they are warranty-related payments, they are recorded against the warranty reserve. To the extent this evaluation determines the payments made are related to completion of a home or land development, the payments are recorded against our land development and home construction accruals. Additional reserves are established for known, unusual warranty-related expenditures not covered by the general warranty reserves. Warranty reserves not utilized for a particular house are evaluated on a monthly basis for reasonableness in the aggregate on both a market-by-market and consolidated basis. Warranty payments for an individual house may exceed the related reserve. Payments in excess of the reserve are evaluated on a monthly basis in the aggregate to determine if an adjustment to the warranty reserve should be recorded, which could result in a corresponding adjustment to home cost of sales.

Generally, warranty reserves are reviewed monthly, using historical data and other relevant information, to determine the reasonableness and adequacy of both the aggregate reserve and the per unit reserve amount originally included in home cost of sales, as well as the timing of any reversals of the original reserve. We continue to evaluate the adequacy of the warranty reserves and, based on historical results, believe that our existing estimation process is materially accurate and do not anticipate the process to change materially in the future. Because our warranty reserves can be impacted by a significant number of factors, we do not believe it is possible to develop a sensitivity analysis with a level of precision that would be meaningful to an investor. However, it is at least reasonably possible that changes to our assumptions could have a material impact on our warranty reserves balance.

Insurance Reserves. We record expenses and liabilities for losses and loss adjustment expenses for claims associated with: (1) insurance policies issued by StarAmerican and Allegiant; (2) self-insurance; and (3) deductible amounts under the Company s insurance policies. The establishment of the provisions for outstanding losses and loss adjustment expenses is based on actuarial studies that include known facts and interpretation of circumstances, including our experience with similar cases and historical trends involving claim payment patterns, pending levels of unpaid claims, product mix or concentration, claim severity, frequency patterns (such as those caused by natural disasters), fires or accidents, depending on the business conducted and changing regulatory and legal environments. The process of determining our insurance reserve balances necessarily requires estimates associated with various assumptions, each of which can positively or negatively impact our insurance reserve balances. Accordingly, we do not believe it is possible to develop a sensitivity analysis with a level of precision that would be meaningful to an investor. However, it is possible that changes in the claim rate or the average cost per claim used to estimate the self-insured reserves could have a material impact on our insurance reserve balances.

Income Taxes Valuation Allowance. In accordance with SFAS No. 109, Accounting for Income Taxes, a valuation allowance is recorded against a deferred tax asset if, based on the weight of available evidence, it is more-likely-than-not (a likelihood of more than 50%) that some portion, or all, of the deferred tax asset will not be realized. The realization of a deferred tax asset ultimately depends on the existence of sufficient taxable income in either the carryback or carryforward periods under tax law (currently 2 and 20 years, respectively). The four sources of taxable income to be considered in determining whether a valuation allowance is required include:

- future reversals of existing taxable temporary differences;
- taxable income in prior carryback years;
- tax planning strategies; and
- future taxable income exclusive of reversing temporary differences and carryforwards.

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Determining whether a valuation allowance for deferred tax assets is necessary requires an analysis of both positive and negative evidence regarding realization of the deferred tax assets. Examples of positive evidence may include:

- a strong earnings history exclusive of the loss that created the deductible temporary differences, coupled with evidence indicating that the loss is the result of an aberration rather than a continuing condition;
- an excess of appreciated asset value over the tax basis of a company s net assets in an amount sufficient to realize the deferred tax asset; and
- existing Backlog that will produce sufficient taxable income to realize the deferred tax asset based on existing sales prices and cost structures.

Examples of negative evidence may include:

- the existence of cumulative losses (defined as a pre-tax cumulative loss for the current and previous two years);
- an expectation of being in a cumulative loss position in a future reporting period;
- a carryback or carryforward period that is so brief that it would limit the realization of tax benefits;
- a history of operating loss or tax credit carryforwards expiring unused; and
- unsettled circumstances that, if unfavorably resolved, would adversely affect future operations and profit levels on a continuing basis.

The weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified. A company must use judgment in considering the relative impact of positive and negative evidence. At December 31, 2008, we had a full valuation allowance of $294.3 million recorded against our net deferred tax asset primarily due to our experiencing a three-year cumulative operating loss as of December 31, 2008. Additionally, at December 31, 2008, the Company had exhausted its net operating loss carryback potential.

Future adjustments to our deferred tax asset valuation allowance will be determined based upon changes in the expected realization of our net deferred tax assets. Our December 31, 2008 valuation allowance may be impacted by, among other things:

- additional inventory impairments;
- additional pre-tax operating losses;

- the utilization of tax planning strategies that could accelerate the realization of certain deferred tax assets (for example, funding certain accrued liabilities such as employee vacation accruals or pension liabilities); or

- enactment of proposed legislation expanding the current two year federal net operating loss carryback provisions.

Because our valuation allowance can be impacted by any one or a combination of the foregoing factors, we do not believe it is possible to develop a sensitivity analysis associated with potential adjustments to the valuation allowance on our deferred tax assets. Additionally, due to the considerable estimates utilized in establishing the valuation allowance and the potential for changes in facts and circumstances in future reporting periods, it is possible that we will be required to either increase or decrease our valuation allowance in future reporting periods.

Income Taxes FIN 48 (as defined below). We apply the interpretations prescribed by FASB Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes (FIN 48) in accounting for the uncertainty in income taxes recognized in our Consolidated Financial Statements. FIN 48 provides guidance for the recognition and measurement in financial statements for uncertain tax positions taken or expected to be taken in a tax return.

The evaluation of a tax position in accordance with FIN 48 is a two-step process, the first step being recognition. We determine whether it is more-likely-than-not that a tax position will be sustained upon tax examination, including resolution of any related appeals or litigation, based on the technical merits of the position. The technical merits of a tax position derive from both statutory and judicial authority (legislation and statutes, legislative intent, regulations, rulings, and case law) and their applicability to the facts and circumstances of the tax position. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements.

The second step is measurement. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate resolution with a taxing authority.

Revenue Recognition. In the process of selling homes, we negotiate the terms of a home sales contract with a prospective homebuyer, including base sales price, any options and upgrades (such as upgraded appliance, cabinetry, flooring, etc.), and any home sales incentive. Our home sales incentives generally come in the form of: (1) discounts on the sales price of the home (Sales Price Incentives); (2) homebuyer closing cost assistance paid by Richmond American Homes to a third-party (Closing Cost Incentives); and (3) mortgage loan origination fees paid by Richmond American Homes to HomeAmerican (Mortgage Loan Origination Fees). The combination of home sales incentives offered to prospective homebuyers may vary from subdivision-to-subdivision and from home-to-home, and may be revised during the home closing process based upon homebuyer preferences or upon changes in market conditions, such as changes in our competitors pricing. Revenue from a home closing includes the base sales price and any purchased options and upgrades and is reduced for any Sales Price Incentives or Mortgage Loan Origination Fees.

We recognize revenue from home closings and land sales in accordance with SFAS No. 66, Accounting for Sales of Real Estate (SFAS 66). Accordingly, revenue is recognized when: (1) the closing has occurred; (2) title has passed to the buyer; (3) possession and other attributes of ownership have been transferred to the buyer; (4) we are not obligated to perform significant additional activities after closing and delivery; and (5) the buyer demonstrates a commitment to pay for the property through an adequate initial and continuing investment (i.e. down payments generally ranging from 5% to 20%). In accordance with SFAS 66, the buyer s initial investment shall include: (1) cash paid as a down payment; (2) the buyer s notes supported by irrevocable letters of credit; (3) payments made by the buyer to third-parties to reduce existing indebtedness on the property; and (4) other amounts paid by the buyer that are part of the sales value of the property. For home closings, we evaluate the initial investment for home purchase financing provided under Federal Housing Administration (FHA) insured and

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Veterans Administration (VA) guaranteed loans in accordance with Emerging Issues Task Force (EITF) No. 87-9, Profit Recognition on Sales of Real Estate with Insured Mortgages or Surety Bonds, and for all other home purchase financing in accordance with SFAS 66 and EITF No. 88-24, Effect of Various Forms of Financing under FASB Statement No. 66.

We utilize the installment method of accounting in accordance with SFAS 66 for home closings in which: (1) HomeAmerican originates the mortgage loan; (2) HomeAmerican has not sold the mortgage loan, or loans, as of the end of the pertinent reporting period; and (3) the homebuyer s down payment does not meet the initial or continuing investment requirement set forth in SFAS 66. Accordingly, the corresponding Operating Profit is deferred by recording a reduction to home sales revenue in the Consolidated Statements of Operations, and the deferral is subsequently recognized at the time HomeAmerican sells the homebuyer s mortgage loan, or loans, to a third-party purchaser. In the event the Operating Profit is a loss, we recognize such loss at the time the home is closed. The Company s deferral of Operating Profit associated with homes that closed for which the initial or continuing investment criteria were not met was immaterial at December 31, 2008 and 2007.

Our mortgage loans generally are sold to third-party purchasers with anti-fraud, warranty and limited early payment default provisions. In accordance with SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS 140), a sale of a homebuyer mortgage loan has occurred when the following criteria have been met: (1) the payment from the third-party purchaser is not subject to future subordination; (2) we have transferred all the usual risks and rewards of ownership that is in substance a sale; and (3) we do not have a substantial continuing involvement with the mortgage loan. Factors that we consider in assessing whether a sale of a mortgage loan has occurred in accordance with SFAS 140 include, among other things: (1) the recourse, if any, to HomeAmerican for credit and interest rate risk; (2) the right or obligation, if any, of HomeAmerican to repurchase the loan; and (3) the control HomeAmerican retains, or is perceived to retain, over the administration of the loan post-closing.

Revenue from the sale of mortgage loan servicing is recognized upon the exchange of consideration for the mortgage loans and related servicing rights between the Company and the third-party purchaser in accordance with the provisions of SFAS 140. Prior to the adoption of SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159) on January 1, 2008, we deferred the application and origination fees, net of costs, and recognized them as revenue, along with the associated gains or losses on the sale of the mortgage loans and related servicing rights, when the mortgage loans were sold to third-party purchasers in accordance with SFAS No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans. The revenue recognized was reduced by the estimated fair value of any related guarantee provisions provided to the third-party purchaser, which was determined by the amount at which the liability could be bought in a current transaction between willing parties. The fair value of the guarantee provisions was recognized in revenue when the Company was released from its obligation under the terms of the loan sale agreements.

In February 2007, the FASB issued SFAS 159 which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Once a company chooses to report an item at fair value, changes in fair value would be reported in earnings at each reporting date. On January 1, 2008, we elected to measure mortgage loans held-for-sale originated on or after January 1, 2008 at fair value. Using fair value allows an offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting under SFAS 133. We adopted SFAS 159 during the 2008 first quarter, and it did not have a material impact on its financial position, results of operations or cash flows upon adoption.

Home Cost of Sales. Home cost of sales includes the specific construction costs of each home and all applicable land acquisition, land development and related costs, both incurred and estimated to be incurred, warranty costs and finance and closing costs, including Closing Cost Incentives. We use the specific identification method for the purpose of accumulating home construction costs and allocate costs to each lot within a subdivision associated with land acquisition and land development based upon relative market value of the lots prior to home construction. Lots within a subdivision typically have comparable market values, and we therefore generally allocate costs equally to each lot within a subdivision. We record all home cost of sales when a home is closed on a house-by-house basis.

When a home is closed, we generally have not yet paid and recorded all costs necessary to complete the construction of the home and certain land development costs. At the time of a home closing, we compare the home construction budgets to actual recorded costs to determine the additional estimated costs remaining to be paid on each closed home. For amounts not incurred or paid as of the time of closing a home, we record an estimated accrual associated with certain home construction and land development costs. Generally, these accruals are established based upon contracted work that has yet to be paid, open work orders not paid at the time of home closing, punch list items identified during the course of the homebuyer s final walkthrough of the home, as well as land completion costs more likely than not to be incurred, and represent estimates believed to be adequate to cover the expected remaining home construction and land development costs. We monitor the adequacy of these accruals on a house-by-house basis and in the aggregate on both a market-by-market and consolidated basis. At December 31, 2008 and 2007, we had $22.9 million and $42.3 million, respectively, of land development and home construction accruals for closed homes. Actual results could differ from such estimates.

We may offer to pay all or a portion of a homebuyer s closing costs as an incentive. Closing Cost Incentives represent expenses that, over and above the price of the home, the Company and the homebuyer normally incur to complete the recording of the sales transaction. These costs may include items payable to third-parties such as mortgage loan origination fees, discount points, appraisal fees, document preparation fees, insurance premiums, title search and insurance fees, as well as government recording and transfer charges. We record Closing Cost Incentives, at the time a home is closed and present them as a component of home cost of sales in the Consolidated Statements of Operations in accordance with EITF Issue No. 01-09, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor s Products).

Stock-Based Compensation. We account for share-based payment awards, generally grants of stock options and restricted stock, in accordance with the provisions of SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)), which can require significant judgment in estimating the fair value of the share-based payment awards and related compensation. Stock-based compensation expense was $14.6 million, $12.5 million and $16.6 million for the years ended December 31, 2008, 2007 and 2006, respectively, and was recorded to general and administrative expenses in the Consolidated Statements of Operations. See Note 16 to the Consolidated Financial Statements for a further discussion on share-based payment awards.

Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires judgment, including estimating stock price volatility, annual forfeiture rates

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and the expected life of an award. We estimated the fair value for stock options granted during the twelve months ended December 31, 2008, 2007 and 2006 using the Black-Scholes option pricing model. The Black-Scholes option pricing model calculates the estimated fair value of stock options based upon the following inputs: (1) closing price of the Company s common stock on the measurement date (generally the date of grant); (2) exercise price; (3) expected stock option life; (4) expected volatility; (5) risk-free interest rate; and (6) expected dividend yield rate. The expected life of employee stock options represents the period for which the stock options are expected to remain outstanding and is derived primarily from historical exercise patterns. The expected volatility is based on the historical volatility in the price of our common stock over the most recent period commensurate with the estimated expected life of our employee stock options, adjusted for the impact of unusual fluctuations not reasonably expected to recur and other relevant factors. The risk-free interest rate assumption is determined based upon observed interest rates appropriate for the expected term of our employee stock options. The expected dividend yield assumption is based on our historical and expected dividend payouts. We determine the estimated fair value of the share-based payment awards in accordance with the provisions of SFAS 123(R) on the date they were granted. The fair values of previously granted share-based payment awards are not adjusted as subsequent changes in the foregoing assumptions occur, for example, an increase or decrease in the price of the Company s common stock. However, changes in the foregoing inputs, particularly the price of the Company s common stock, expected stock option life and expected volatility, significantly change the estimated fair value of future grants of stock options.

SFAS 123(R) requires an annual forfeiture rate to be estimated at the time of grant, and revised if necessary, in subsequent periods if the actual forfeiture rate differs from our estimate. We estimated the annual forfeiture rate generally to be 10% to 25% for share-based payment awards granted to Non-Executives (as defined in Note 16 to our Consolidated Financial Statements) and 0% for share-based payment awards granted to Executives and Directors (as defined in Note 16 to our Consolidated Financial Statements), based on the terms of their awards, as well as historical forfeiture experience.

Segment Reporting. The application of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS 131), requires significant judgment in determining our operating segments. SFAS 131 defines operating segments as a component of an enterprise for which discrete financial information is available and is reviewed regularly by the chief operating decision-maker, or decision-making group, to evaluate performance and make operating decisions. We have identified our chief operating decision-makers as three key executives the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer.

We have identified each homebuilding subdivision as an operating segment in accordance with SFAS 131. Each homebuilding subdivision engages in business activities from which it earns revenue primarily from the sale of single-family detached homes, generally to first-time and first-time move-up homebuyers. Subdivisions in the reportable segments noted below have been aggregated because they are similar in the following regards: (1) economic characteristics; (2) housing products; (3) class of homebuyer; (4) regulatory environments; and (5) methods used to construct and sell homes. In making the determination of whether or not our markets demonstrate similar economic characteristics, we review, among other things, actual and trending Home Gross Margins for homes closed within each market and forecasted Home Gross Margins. Accordingly, we may be required to reclassify our reportable segments if markets that currently are being aggregated do not continue to demonstrate similar economic characteristics.

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Our homebuilding reportable segments are as follows:

- West (Arizona, California and Nevada);
- Mountain (Colorado and Utah);
- East (Virginia and Maryland); and
- Other Homebuilding (Delaware Valley, Florida and Illinois)

Land Option Contracts. In the normal course of business, we enter into lot option purchase contracts, generally through a deposit of cash or letter of credit, for the right to purchase land or lots at a future point in time with predetermined terms. Option deposits and pre-acquisition costs we incur related to our lot option purchase contracts are capitalized in accordance with SFAS No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, (SFAS 67) if all of the of the following conditions have been met: (1) the costs are directly identifiable with the specific property; (2) the costs would be capitalized if the property were already acquired; and (3) acquisition of the property is probable, meaning we are actively seeking and have the ability to acquire the property and there is no indication that the property is not available for sale. We also consider the following when determining if the acquisition of the property is probable: (1) changes in market conditions subsequent to contracting for the purchase of the land; (2) current contract terms, including per lot price and required purchase dates; and (3) our current land position in the given market or sub-market. Option deposits and capitalized pre-acquisition costs are expensed to general and administrative expense in the Consolidated Statements of Operations when we believe it is no longer probable that we will acquire the lots under option. We expensed $6.7 million, $23.4 million and $29.7 million for the years ended December 31, 2008, 2007 and 2006, respectively, related to the write-off of option deposits and capitalized pre-acquisition costs. At December 31, 2008, we had the right to acquire 2,358 lots under option contracts, with non-refundable cash and letters of credit option deposits of $5.1 million and $4.4 million at risk and $1.0 million in capitalized pre-acquisition costs.

We also evaluate these transactions in accordance with revised FIN No. 46, Consolidation of Variable Interest Entities, as amended (FIN 46R). Our obligation with respect to option contracts generally is limited to forfeiture of the related non-refundable cash deposits and/or letters of credit. At December 31, 2008, the total purchase price for lots under option was $275 million. Pursuant to FIN 46R, certain of these contracts could create a variable interest, with the land seller being the variable interest entity (VIE) and, as such, could require us to consolidate the assets and liabilities of the VIE. We have evaluated all lot option purchase contracts that were executed or had significant modifications during 2008 pursuant to FIN 46R, and considered: (1) what investments were at risk; (2) contractual obligations to perform; (3) expected changes in market prices of land over a given period; and (4) annual risk free interest rates. Based on these evaluations, we determined that our interests in these VIEs did not result in significant variable interests or require us to consolidate the VIEs. Due to the nature of the assumptions used in our evaluation process, it is possible that our evaluation of lot option contracts that we may execute in the future could result in MDC being identified as the primary beneficiary, which could result in our consolidation of a VIE.

Since we own no equity interest in any of the unaffiliated VIEs that we must evaluate pursuant to FIN 46R, certain assumptions about the assets and liabilities of such entities are required. In most cases, the fair values of the assets of the evaluated VIEs have been assumed to be the remaining contractual purchase price of the land or lots we are purchasing.

We periodically enter into lot option arrangements with third-parties that will purchase or have purchased property at our direction that we may later acquire. We evaluate these transactions in accordance with FIN 46R, as well as under SFAS No. 49, Accounting for Product Financing Arrangements (SFAS 49), to determine if we should record an asset and liability at the time we enter into the lot option contract. SFAS 49 provides guidance on identifying and accounting for product financing arrangements, which include: (1) land that is contracted to be purchased by a third-party that simultaneously contracts to sell to the Company; (2) requirements to purchase land at specified prices; and (3) additional purchase price payments to be made that are adjusted, as necessary, to cover substantially all fluctuation in costs incurred by the third-party. Factors considered when evaluating lot option contracts pursuant to SFAS 49 include: (1) amount of deposit at risk; (2) loss of anticipated future operating income associated with selling homes; (3) unreimbursed commitments to incur costs associated with lots; and (4) the uniqueness or location of the lots. Based on these evaluations at December 31, 2008, we recorded $3.4 million to other assets and accrued liabilities in the Consolidated Balance Sheets in accordance with SFAS 49. We evaluated all lot option contracts executed during 2007 subject to the provisions of SFAS 49 and, based on these evaluations at December 31, 2007, we determined that no asset or liability was required to be recorded prior to the date of purchase of the land.

RESULTS OF OPERATIONS

The following discussion compares results for the year ended December 31, 2008 with the year ended December 31, 2007.

Home Sales Revenue. Home sales revenue from a home closing includes the base sales price and any purchased options and upgrades and is reduced for any Sales Price Incentives or Mortgage Loan Origination Fees. The table below summarizes home sales revenue by reportable segment (dollars in thousands).

	Years Ended December 31,		Increase (Decrease)	
	2008	2007	Amount	%
Homebuilding				
West	$ 731,319	$ 1,676,731	$ (945,412)	-56%
Mountain	292,382	539,692	(247,310)	-46%
East	206,371	317,111	(110,740)	-35%
Other Homebuilding	142,860	252,432	(109,572)	-43%
Total Homebuilding	1,372,932	2,785,966	(1,413,034)	-51%
Intercompany adjustments	(14,784)	(19,985)	5,201	26%
Consolidated	$ 1,358,148	$ 2,765,981	$ (1,407,833)	-51%

The decrease in home sales revenue in our West segment during the year ended December 31, 2008 primarily resulted from closing 2,533 fewer homes as well as significant decreases in the average selling prices for homes closed in each market within this segment. Home sales revenue in our Mountain segment decreased during the year ended December 31, 2008 due to closing 687 fewer homes and significant decreases in the average selling prices of closed homes during 2008 in Utah. The decline in home sales revenue in our East segment during the year ended December 31, 2008 primarily resulted from lower average selling prices of closed homes in each market within this segment and closing 183 fewer homes. Home sales revenue in our Other Homebuilding segment decreased during the year ended December 31, 2008 primarily due to closing 304 fewer homes and lower average selling prices for homes closed for each market within this segment.

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Land Sales Revenue. Land sales revenue was $60.1 million during the year ended December 31, 2008, compared with $50.1 million for the year ended December 31, 2007. Land sales revenue during 2008 resulted from the sale of approximately 1,800 lots primarily in our West segment. This revenue primarily resulted from our deciding that the best economic value to the Company of these lots was to sell them in their current condition as opposed to holding the lots and eventually building and selling homes on them. Land sales revenue during 2007 primarily related to the sale of nearly 2,000 lots in more than 20 subdivisions located primarily in California, Arizona, Nevada and Utah.

Other Revenue. Gains on the sale of mortgage loans primarily represent the revenue earned by HomeAmerican for the sale of mortgage loans that were originated for our homebuyers to third-parties. Our broker origination fees primarily represent fees that HomeAmerican earns upon brokering a mortgage loan for a home closing. Insurance revenue is primarily comprised of insurance premiums collected by StarAmerican and Allegiant from our homebuilding subcontractors in connection with the construction of homes. Title and other revenue primarily consists of forfeiture of homebuyer deposits on a home sales contract and revenue associated with our American Home Title operations. The table below sets forth the components of other revenue (dollars in thousands).

	Years Ended December 31,		Increase (Decrease)	
	2008	2007	Amount	%
Gains on sales of mortgage loans, net	$ 21,662	$ 30,682	$ (9,020)	-29%
Broker origination fees	1,853	7,014	(5,161)	-74%
Insurance revenue	8,673	17,241	(8,568)	-50%
Title and other revenue	7,722	14,611	(6,889)	-47%
Total other revenue	$ 39,910	$ 69,548	$ (29,638)	-43%

Other revenue was lower during the year ended December 31, 2008 primarily resulting from decreases in the following: (1) gains on sales of mortgage loans, net and broker origination fees, as we originated and sold fewer mortgage loans in connection with closing fewer homes during 2008; (2) insurance revenue, as we collected fewer insurance premiums from our homebuilding subcontractors as a result of the decline in home construction levels during 2008; and (3) title and other revenue, due to a decline in forfeited homebuyer deposits.

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Home Cost of Sales. Home cost of sales primarily includes land acquisition, land development and related costs, both incurred and estimated to be incurred, warranty costs and finance and closing costs, including Closing Cost Incentives, and excludes commissions, amortization of deferred marketing costs and inventory impairments. The table below sets forth the home cost of sales by reportable segment (dollars in thousands).

	Years Ended December 31,		Increase (Decrease)	
	2008	2007	Amount	%
Homebuilding				
West	$ 620,329	$ 1,465,437	$ (845,108)	-58%
Mountain	271,845	449,219	(177,374)	-39%
East	180,646	261,057	(80,411)	-31%
Other Homebuilding	126,829	224,699	(97,870)	-44%
Total Homebuilding	1,199,649	2,400,412	(1,200,763)	-50%
Intercompany adjustments	(14,784)	(19,985)	5,201	-26%
Consolidated	$ 1,184,865	$ 2,380,427	$ (1,195,562)	-50%

Home cost of sales in our West segment were lower during the year ended December 31, 2008, primarily due to the following: (1) closing 2,533 fewer homes; (2) decreases in land costs per closed home resulting from the inventory impairments recorded during 2007 and 2008; and (3) decreases in home cost of sales due to adjustments to reduce our warranty reserves resulting from significant declines in the amount of warranty payments incurred during 2008. These items were offset slightly by an increase in interest expense in home cost of sales resulting from the significant decline in our inventory levels over the last two years, during which time the amount of homebuilding and corporate interest incurred has been approximately the same each quarter. As a consequence, our active held-for-development inventory has been burdened with an increasing level of capitalized interest. Home cost of sales in our Mountain segment decreased during the year ended December 31, 2008 primarily due to: (1) closing 687 fewer homes; and (2) decreases in land costs per closed home resulting from the inventory impairments recorded during 2007 and 2008. These items were offset partially by increases in home construction costs per closed home primarily due to changes in the size and style of homes that were closed during 2008 and an increase in interest expense in home cost of sales.

Home cost of sales in both our East and Other Homebuilding segments were lower during the year ended December 31, 2008 primarily due to closing 183 and 304 fewer homes, respectively, and decreases in land costs per closed home resulting from the inventory impairments recorded during 2007 and 2008. These items were offset slightly by an increase in interest expense in home cost of sales.

Land Cost of Sales. Land cost of sales was $53.8 million during the year ended December 31, 2008 and primarily related to the sale and closing of approximately 1,800 lots primarily in our West segment. Land cost of sales during the year ended December 31, 2007 was $59.5 million and primarily related to the sale of nearly 2,000 lots in more than 20 subdivisions located primarily in California, Arizona, Nevada and Utah.

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Asset Impairments. The following table sets forth, by reportable segment, the asset impairments recorded for the twelve months ended December 31, 2008 and 2007 (in thousands).

	Year Ended December 31, 2008	Year Ended December 31, 2007	Increase (Decrease)
Land and Land Under Development (Held-for-Development)			
West	$ 81,686	$ 419,471	$ (337,785)
Mountain	66,606	24,194	42,412
East	17,371	29,057	(11,686)
Other Homebuilding	8,850	42,832	(33,982)
Subtotal	174,513	515,554	(341,041)
Housing Completed or Under Construction (Held-for-Development)			
West	48,437	135,081	(86,644)
Mountain	16,514	5,912	10,602
East	8,514	12,998	(4,484)
Other Homebuilding	9,177	15,901	(6,724)
Subtotal	82,642	169,892	(87,250)
Land and Land Under Development (Held-for-Sale)			
West	21,846	26,942	(5,096)
Mountain	150	-	150
East	1,270	-	1,270
Other Homebuilding	6,315	13,765	(7,450)
Subtotal	29,581	40,707	(11,126)
Intangible and Other Assets	11,419	468	10,951
Consolidated Asset Impairments	$ 298,155	$ 726,621	$ (428,466)

The impairments of our held-for-development inventories incurred during the year ended December 31, 2008, primarily resulted from decreases in home sales prices and/or increases in Sales Price Incentives offered as a result of: (1) lower home sales prices currently being offered by our competitors; (2) efforts to maintain homes in Backlog; (3) continued high levels of home foreclosures; (4) affordability issues for new homes as homebuyers have been experiencing difficulty in qualifying for mortgage loans; and (5) efforts to stimulate new home orders in order to sell and close the remaining homes in subdivisions that are in the close-out phase. Additionally, during the 2008 third quarter, we increased the discount rates used in our estimated discounted cash flow assessments from a range of 10% to 18% to a range of 13% to 21%. This change resulted from increased risks and uncertainties in the homebuilding industries due to, among other things, the on-going deterioration in the market value of land and homes as well as homebuyers inability to qualify for mortgage loans. The impairments of our held-for-development inventories were increased by approximately $14 million as a result of the increase in our estimated discount rates.

The impairments of held-for-development inventories in the Mountain and West segments were significantly higher than impairments recorded in our other homebuilding segments, primarily resulting from: (1) competition within the sub-markets of these segments appearing to be more pronounced than in the other homebuilding segments and, as a result, we generally experienced more significant reductions in our average selling prices of homes within these segments; and (2) the fact that the total homebuilding inventories for the Mountain and West segments comprised 39% and 35%, respectively, of our consolidated homebuilding inventories at December 31, 2008. We also believe that buyers of our homes in the West segment are largely comprised of entry level homebuyers, compared with a

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wider range of homebuyers in the other homebuilding segments and, as such, their ability to obtain suitable mortgage loan financing has been impacted more adversely by the decreased availability of mortgage loan products, which contributed to the relatively higher impairments in this segment. Also contributing to the impairments in the Mountain segment was a more pronounced decline in demand for new homes in recent quarters, particularly in our Utah market, which experienced a greater decline in demand for new homes during 2008 than have our other homebuilding segments.

During the year ended December 31, 2008 and 2007, we recorded impairments of $29.6 million and $40.7 million, respectively, on our held-for-sale inventory, primarily in the West segment. The 2008 impairments primarily resulted from significant decreases in the fair market values of new homes being sold, as this has caused corresponding declines in the fair market values of land available for sale. Also contributing to these impairments was the decision that the best economic value to the Company of these lots was to sell them in their current condition as opposed to holding the lots and eventually building and selling homes on them. The decrease in the impairments of our held-for-sale inventory during 2008 primarily resulted from lower exposure to impairments of held-for-sale assets as we closed on the sale of a significant number of lots during 2007 and early 2008.

Additionally, during the year ended December 31, 2008, we incurred $11.4 million of impairments associated with intangible and other assets. These impairments primarily related to deferred marketing costs, such as certain selling costs associated with model homes that were abandoned during the year either because of a determination that the best use of the asset was to sell it in its current condition or because of changing home styles in a subdivision, which resulted in certain model homes no longer being used for the sale of new homes.

The following table sets forth the inventory impairments (excluding intangible and other assets) that were recorded on a quarterly basis during 2008 and 2007, as well as the fair value of those inventories and the number of lots and subdivisions at the period end to which the impairments relate (dollars in thousands).

	Inventory Impairments for the Three Months Ended			Fair Value of	Number of	Number of Subdivisions
			Total	Impaired	Lots Impaired	Impaired
	Held-for-Development	Held-for-Sale	Inventory Impairments	Inventory at Quarter End	During the Quarter	During the Quarter
March 31, 2008	$ 47,570	$ 6,096	$ 53,666	$ 218,526	2,628	94
June 30, 2008	72,024	13,198	85,222	240,372	3,501	110
September 30, 2008	83,340	7,480	90,820	213,498	3,474	151
December 31, 2008	54,221	2,807	57,028	165,656	2,177	132
Consolidated	$ 257,155	$ 29,581	$ 286,736			
March 31, 2007	$ 136,422	$ 5,000	$ 141,422	$ 381,117	3,284	52
June 30, 2007	158,642	2,408	161,050	448,372	4,427	83
September 30, 2007	242,782	6,168	248,950	873,038	7,074	132
December 31, 2007	147,600	27,131	174,731	397,045	4,891	153
Consolidated	$ 685,446	$ 40,707	$ 726,153			

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Marketing Expenses. Marketing expenses primarily include advertising, amortization of deferred marketing costs, model home expenses, compensation related expenses and other selling costs. The following table summarizes our marketing expenses by reportable segment (in thousands).

	Year Ended December 31,		Increase (Decrease)	
	2008	2007	Amount	%
Homebuilding				
West	$ 43,760	$ 70,539	$ (26,779)	-38%
Mountain	13,059	21,019	(7,960)	-38%
East	8,924	13,395	(4,471)	-33%
Other Homebuilding	6,139	12,135	(5,996)	-49%
Consolidated	$ 71,882	$ 117,088	$ (45,206)	-39%

The lower marketing expenses for each of our homebuilding segments primarily resulted from decreases of: (1) $22.5 million in advertising expenses during the year ended December 31, 2008, as we continued to reduce our overall advertising costs in response to the decreased levels of home orders and closings, as well as having fewer active subdivisions during 2008; (2) $8.9 million in sales office expenses during 2008, in connection with having fewer model homes at December 31, 2008; and (3) $9.6 million of amortization of deferred marketing costs as a result of closing fewer homes during the year ended December 31, 2008.

Commission Expenses. Commission expenses primarily include direct incremental commissions paid for closed homes. The following table summarizes our commission expenses by reportable segment (in thousands).

	Year Ended December 31,		Increase (Decrease)	
	2008	2007	Amount	%
Homebuilding				
West	$ 25,671	$ 59,890	$ (34,219)	-57%
Mountain	11,338	18,925	(7,587)	-40%
East	7,937	10,358	(2,421)	-23%
Other Homebuilding	5,349	8,778	(3,429)	-39%
Consolidated	$ 50,295	$ 97,951	$ (47,656)	-49%

Commission expenses within all of our homebuilding segments decreased during the year ended December 31, 2008, primarily resulting from declines in commission fees paid to both in-house and outside brokers for each segment due to closing fewer homes and the declines in the average selling price of closed homes.

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General and Administrative Expenses. The following table summarizes our general and administrative expenses by reportable segment (in thousands).

	Year Ended December 31,		Increase (Decrease)	
	2008	2007	Amount	%
Homebuilding				
West	$ 52,304	$ 117,743	$ (65,439)	-56%
Mountain	21,296	35,855	(14,559)	-41%
East	18,434	29,781	(11,347)	-38%
Other Homebuilding	13,618	27,076	(13,458)	-50%
Total Homebuilding	105,652	210,455	(104,803)	-50%
Financial Services and Other	25,790	40,445	(14,655)	-36%
Corporate	67,247	55,815	11,432	20%
Consolidated	$ 198,689	$ 306,715	$ (108,026)	-35%

General and administrative expenses for each of our homebuilding segments decreased during the year ended December 31, 2008. These reduced expenses resulted from various cost saving initiatives associated with right-sizing our operations in response to the reduced levels of homebuilding activity in each of our markets. We consolidated certain homebuilding divisions and reduced employee headcount as of December 2008 from December 2007 by 53%, 40%, 26% and 38% in our West, Mountain, East and Other Homebuilding segments, respectively. Through these efforts, we have reduced our homebuilding divisions to 10 as of December 31, 2008 from 12 at December 31, 2007, allowing us to consolidate office space in many of our markets throughout 2007 and into 2008.

The decrease in general and administrative expenses during the year ended December 31, 2008 for the homebuilding segments was most notable within the West segment, primarily resulting from the following: (1) a $22.5 million decrease in employee compensation and other employee-related benefit costs; (2) a $13.2 million decrease in inter-company supervisory fees (Supervisory Fees); (3) an $8.5 million decrease in office-related expenses and depreciation resulting from fewer office facilities being occupied as we consolidated our homebuilding divisions; (4) a $4.9 million decrease in write-offs of pre-acquisition costs and deposits on lot option contracts due to having fewer lot option contracts during 2008 and associated deposits that were required to be written-off; (5) a $4.8 million decrease in legal expenses as a result of resolving construction defect claims; (6) a $4.8 million decrease in other expenses primarily relating to reductions in warranty reserves that were established through general and administrative expenses during previous reporting periods; and (7) a $3.7 million decrease in restructuring related expenses as we exited more office facilities during 2007 than in 2008 during our efforts to consolidate homebuilding divisions.

The decline in general and administrative expenses during the year ended December 31, 2008 in our Mountain segment primarily resulted from decreases of: (1) $7.4 million in employee compensation and other employee-related benefit costs; (2) $3.0 million in write-offs of pre-acquisition costs and deposits on lot option contracts due to having fewer lot option contracts during 2008 and associated deposits that were required to be written-off; (3) $1.8 million in Supervisory Fees; and (4) $1.1 million in office-related expenses and depreciation resulting from fewer office facilities being occupied as we consolidated our homebuilding divisions.

The decline in general and administrative expenses during the year ended December 31, 2008 in our East segment primarily resulted from decreases of: (1) $4.7 million in write-offs of pre-acquisition costs and deposits on lot option contracts due to having fewer lot option contracts during 2008 and associated deposits that were required to be written-off; (2) $2.7 million in employee compensation and other employee-related benefit costs; (3) $2.2 million in office-related expenses and depreciation resulting from fewer office facilities being occupied as we consolidated our homebuilding division; and (4) a $1.7 million in Supervisory Fees.

The decline in general and administrative expenses during the year ended December 31, 2008 in our Other Homebuilding segment was due in part to: (1) a $4.3 million decrease in employee compensation and other employee-related benefit costs; (2) a $4.1 million decrease in write-offs of pre-acquisition costs and deposits on lot option contracts due to having fewer lot option contracts during 2008 and associated deposits that were required to be written-off; and (3) a $1.6 million decrease in Supervisory Fees.

In our Financial Services and Other segment, general and administrative expenses declined during the year ended December 31, 2008, primarily resulting from the following decreases: (1) $7.6 million in compensation-related costs, as we reduced our employee headcount for this segment by 44% from December, 2007; (2) $2.0 million of losses associated with repurchased mortgage loans; (3) $2.8 million primarily associated with our incurred but not reported insurance reserves as the number of homes closed decreased significantly during 2008; and (4) $1.2 million in office-related expenses, as we reduced the number of office facilities we occupied since December 2007.

In our Corporate segment, general and administrative expenses increased during the year ended December 31, 2008, primarily resulting from the following: (1) a decline of $18.3 million in Supervisory Fees received from our other segments; (2) a $1.9 million increase associated with execution of revised employment agreements for our Chief Executive Officer and Chief Operating Officer; and (3) a $1.7 million increase associated with the write-off of certain capitalized costs associated with the amendment to our Homebuilding Line. These items partially were offset by the following decreases: (1) $5.4 million in employee compensation and other employee-related benefit costs as we reduced our employee headcount for this segment by 18% from December, 2007; (2) $3.9 million in travel-related and entertainment expenses; and (3) $2.4 million in office-related and depreciation expenses.

Related Party Expenses. Related party expenses decreased from $1.4 million for the year ended December 31, 2007 to $18,000 for the year ended December 31, 2008. The decrease in the 2008 expense is the result of MDC not pledging to make a contribution to the MDC/Richmond American Homes Foundation (the Foundation). We committed to contributing $1.0 million in the form of MDC common stock for 2007 to the Foundation for which we contributed 26,932 shares of MDC common stock to the Foundation in fulfillment of our 2007 commitment. Also contributing to the decrease was the result of the resignation during 2007 of a Director who had provided monthly services to the Company.

The Foundation is a nonprofit organization operated exclusively for charitable, educational and other purposes beneficial to social welfare within the meaning of section 501(c)(3) of the Internal Revenue Code (I.R.C.). Certain directors and officers of the Company are the trustees and/or officers of the Foundation. The Foundation takes action with respect to shares held by it, including the voting of such shares, by majority vote of at least three members of the board of trustees and, accordingly, none of the trustees should be deemed to beneficially own such shares.

Other Income (Expense). Other income (expense) was $17.5 million and $47.6 million during the years ended December 31, 2008 and 2007, respectively. The decrease resulted from an $19.9 million

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decline in interest income, net as a result of expensing $18.0 million of interest incurred during 2008 on our senior notes that could not be capitalized and the impact of lower interest rates on our cash and cash equivalent balances. This was partially offset by increases in our average cash balance during 2008 resulting from our on-going efforts to limit inventory acquisitions during the current homebuilding down cycle. Our cash and cash equivalents consisted of funds in liquid, cash equivalents. Also contributing to the decrease in other income (expense) during 2008 was the impact of recording a $10.3 million gain on the sale of two aircraft during 2007.

(Loss)/Income Before Income Taxes. The table below summarizes our (loss)/income before income taxes by reportable segment (dollars in thousands).

	Years Ended December 31,		Increase (Decrease)	
	2008	2007	Amount	%
Homebuilding				
West	$ (157,103)	$ (621,774)	$ 464,671	-75%
Mountain	(112,251)	(11,395)	(100,856)	885%
East	(36,021)	(38,748)	2,727	-7%
Other Homebuilding	(33,300)	(92,251)	58,951	64%
Total Homebuilding	(338,675)	(764,168)	425,493	-56%
Financial Services and Other	11,678	23,062	(11,384)	-49%
Corporate	(55,138)	(15,358)	(39,780)	-259%
Consolidated	$ (382,135)	$ (756,464)	$ 374,329	-49%

The results of operations for all of our homebuilding segments and our Financial Services and Other segment during the year ended December 31, 2008 continued to be affected adversely by weaker United States and global economies, homebuyers reluctance to purchase new homes based on concerns associated with unemployment levels, uncertainty as to the severity and duration of the current recession in the United States economy, the absence of liquidity in the financial services market, decline in homebuyer demand for new homes and other contributing factors as more fully described in our Executive Summary section of this Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations (Item 7).

In our West segment, the loss before income taxes during the year ended December 31, 2008 was lower primarily due to a $429.5 million decrease in inventory impairments, a combined decrease of $126.4 million in general and administrative, commission and sales and marketing expenses, and a 260 basis point increase in Home Gross Margins, partially offset by the impact of closing 2,533 fewer homes. In our Mountain segment, our loss before income taxes during the year ended December 31, 2008 increased primarily due to the following: (1) a $53.2 million increase in inventory impairments; (2) a decrease in Home Gross Margins of 980 basis points; and (3) the impact of closing 687 fewer homes. Partially offsetting these items was a combined decrease in general and administrative, commission and sales and marketing expenses of $30.1 million.

Loss before income taxes in our East segment decreased during the year ended December 31, 2008 primarily due to a 520 basis point decrease in Home Gross Margins and closing 183 fewer homes, partially offset by a decrease of $14.9 million in inventory impairments and a combined decrease of $18.2 million in general and administrative, commissions and sales and marketing expenses. In our Other Homebuilding segment, the decrease in loss before income taxes for the year ended December 31, 2008 primarily resulted from a $48.2 million decrease in inventory impairments

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and a combined decrease of $22.9 million in general and administrative expenses, commissions and sales and marketing expenses. These items partially were offset by the impact of closing 304 fewer homes.

Income before income taxes in our Financial Services and Other segment was lower during the year ended December 31, 2008, primarily resulting from realizing lower gains on sales of mortgage loans, as the dollar volumes of mortgage loan originations and mortgage loans sold declined in conjunction with building and closing fewer homes and decreases in insurance revenue due to lower insurance premiums collected from our homebuilding subcontractors as a result of the decline in home construction levels. These items were offset partially by reductions in general and administrative expenses for this segment. Loss before income taxes in our Corporate segment was higher during the year ended December 31, 2008 due to a decrease in Supervisory Fees charged to the Company s other segments, and expensing $18.0 million of interest incurred during 2008 on our senior notes that could not be capitalized.

Income Taxes. Our overall effective income tax rates were 0.4% and 15.8% for the years ended December 31, 2008 and 2007, respectively. The decreases in the effective tax rates during the year ended December 31, 2008, resulted primarily from an increase of $134.3 million in the deferred tax asset valuation allowance due to changes in the tax deductions that were ultimately realized during 2008 through federal or state carrybacks or through reversals of existing taxable temporary differences.

The following discussion compares results for the year ended December 31, 2007 with the year ended December 31, 2006.

Home Sales Revenue. The table below summarizes home sales revenue by reportable segment (dollars in thousands).

	Years Ended December 31,		Increase (Decrease)	
	2007	2006	Amount	%
Homebuilding				
West	$ 1,676,731	$ 2,851,850	$ (1,175,119)	-41%
Mountain	539,692	728,135	(188,443)	-26%
East	317,111	624,865	(307,754)	-49%
Other Homebuilding				