

MDC HOLDINGS INC  
Form DEFA14A  
March 02, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934

Filed by the Registrant

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Check the appropriate box:

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- Definitive Proxy Statement
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M.D.C. Holdings, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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

**4350 South Monaco Street, Suite 500**

**Denver, Colorado 80237**

February 27, 2009

Dear Shareholders,

In the face of a recession that continues to tighten its grip on our economy, the benefits of MDC's operating strategy have become increasingly apparent. Our business judgment comes not only from building homes for more than 155,000 families across the nation over the last 37 years, but also from our combined hands-on experience in senior leadership roles. The nearly 70 years of tenure shared by our top two senior managers have prepared us for the recurring cycles in our industry and the broader economy. Even as other highly respected businesses struggled under the weight of extraordinary economic stress, MDC maintained a stable, investment grade balance sheet throughout 2008. This financial strength positions us well to focus on the challenges at hand and prepare for an eventual recovery.

While the downturn in housing severely impacted our operating results for 2008, we worked diligently to further strengthen our balance sheet during the year on many levels. After substantially reducing the total lots we owned in 2007, we further reduced this number by 39% in 2008, in part by actively selling land that no longer fit into our plans for development. This decrease in lot count contributed to a 56% decline in the dollar value of our inventory, which fell to \$637 million at year end, including just \$222 million in land held for development - our lowest year-end exposure to land in the past 10 years. We also continued to aggressively manage our exposure to performance bonds and letters of credit related to various land development activities during 2008. At the end of the year, our estimated cost to complete these activities was only \$25 million. In addition, the total capital we had at risk for lots controlled under option contracts was only \$11 million.

The efforts we undertook to actively reduce our inventory balances, combined with our disciplined reduction in land-related expenditures and SG&A expenses, allowed us to generate \$480 million in operating cash flow during the year. On the strength of that operating cash flow, our cash and investments balance rose by more than 40% to \$1.4 billion at year end and now exceeds our total debt balance by nearly \$400 million. In addition, we have no senior debt due until 2012 and no outstanding borrowings on our homebuilding line of credit, which gives us flexibility in how we deploy our capital.

Given the strength of our balance sheet and our willingness to employ innovative ideas to better our business, we expanded our focus on continued process improvements in 2008. During the first quarter, we laid the framework for this important effort by launching a Company-wide initiative to re-evaluate, transform and streamline our core business practices. Preparation for future growth, enhanced efficiency, standardization and scalability are the primary goals of this undertaking. Our intention is to contribute to the long-term value of our Company as we continue to look for opportunities to invest the capital available to us.

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During 2008, we made a significant commitment to improving our systems by selecting an Enterprise Resource Planning solution to serve as the backbone of our future operations. The implementation team for this new system has already been selected, and we expect to make significant progress on this project during 2009.

Also, we launched a new brand platform at year-end that capitalizes on our commitment to provide a personalized experience for our homebuyers from the time they begin their home search with Richmond American Homes through closing and beyond.

The initiatives we started in prior years continued to take shape during 2008. Our Customer Experience initiative resulted in improved customer satisfaction scores throughout the year a 32% increase since our baseline survey in 2006. And we continued to tailor the home buying experience to each customer by refining the offerings in our retail-based Home Galleries, which are now entering their fifth year of operation.

With this slate of initiatives on our agenda, we are confident that we can make progress toward improving our core business processes in 2009, even if the results are not immediately evident on our bottom line.

We will continue to explore opportunities to redeploy our capital in 2009, with an open mind to different ways in which we might take advantage of current market conditions. Given the fundamental changes that have taken place in our industry during this downturn, it is not reasonable to assume that we will conduct business the same way we have historically. Our interest in pursuing new opportunities in this environment will be balanced by the conservative disciplines that have governed our past, and our primary focus will continue to be on our core business: single-family, detached homebuilding. However, we are fortunate to have the financial resources, the experience and the talent to capitalize on a unique period of time in our industry.

We want to extend our appreciation to our employees, subcontractors, customers, financial associates and shareowners for their continued support during 2008. Also, special recognition goes to our Board of Directors for their hard work and commitment to our company as we strive to achieve our long-term goals.

Sincerely,

Larry A. Mizel

Chairman and CEO