

MDC HOLDINGS INC  
Form DEF 14A  
March 25, 2014  
**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 (Amendment No. )**

Filed by the Registrant    Filed by a party other than the Registrant

**Check the appropriate box:**

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to 240.14a-12

**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)*

**Payment of Filing Fee (Check the appropriate box):**

**No fee required.**

**Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.**

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- (1) Amount Previously Paid:
- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:

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

**4350 South Monaco Street, Suite 500**

**Denver, Colorado 80237**

To Our Shareholders:

You are invited to attend the 2014 Annual Meeting of Shareholders (the “Meeting”) of M.D.C. Holdings, Inc. (the “Company”) to be held at 4350 South Monaco Street,<sup>th</sup>6Floor, Assembly Room, Denver, Colorado, on Monday, May 19, 2014, at 8:00 a.m., Mountain Time. The Notice of the Annual Meeting and the Proxy Statement, which follow this letter, describe the matters to be acted upon at the Meeting.

We are utilizing the rules of the Securities and Exchange Commission that allow us to furnish your proxy materials over the Internet, to lower the cost and environmental impact of our annual meeting. More details are included in the materials that follow.

Your vote is important. Please vote promptly, even if you plan to attend the meeting, by following the instructions in the Proxy Statement that was provided to you.

Sincerely,

**Larry A. Mizel**

*Chairman of the Board*

March 24, 2014

**Important Notice Regarding the Availability of Proxy Materials  
for the Shareholder Meeting to Be Held on May 19, 2014:**

**The Proxy Statement and the Annual Report on Form 10-K are available at:  
[www.rdgir.com/mdc-holdings-inc](http://www.rdgir.com/mdc-holdings-inc)**

**Important Voting Information**

Under New York Stock Exchange rules, unless you provide specific instructions, your broker is not permitted to vote on your behalf on the election of directors and on any of the proposals other than ratification of the selection of the Company's auditors. It is important that you provide specific instructions by completing and returning the broker's Voting Instruction Form or following the instructions provided to you to vote your shares by telephone or the Internet.

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## 2014 PROXY STATEMENT SUMMARY

*This summary highlights and supplements information contained elsewhere in this proxy statement. The summary does not contain all of the information that you should consider and the entire proxy statement should be read carefully before voting. This Proxy Statement, a proxy card and the Notice of Annual Meeting (the "Proxy Materials") are first being sent to our shareholders on or about March 27, 2014.*

### Annual Meeting of Shareholders

- Time and Date 8:00 a.m., May 19, 2014
- Place 4350 South Monaco Street, 6<sup>th</sup> Floor, Assembly Room, Denver, Colorado 80237
- Record Date March 21, 2014

### Agenda

- The election of three Class II Directors
- Advisory vote on executive compensation
- Ratification of the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for 2014
- Such other business as may properly come before the meeting

### Voting Matters

Proposal	Board Recommendation	Page Reference (for more detail)
1. Election of Class II Directors	FOR each Nominee	11
2. Advisory Vote on Executive Compensation	FOR	38
3. Ratification of Ernst & Young LLP as auditor for 2014	FOR	40

### 2013 Performance Summary

Our Chief Executive Officer, Larry A. Mizel, and our President and Chief Operating Officer, David D. Mandarich, the principals who have guided the Company for almost 42 years and 37 years, respectively, are two of the most senior veterans of the U.S. homebuilding industry. By virtue of their leadership, foresight and experience, they have been responsible for the growth of our Company, creating significant long-term shareholder value by successfully coping with multiple economic cycles and challenges over the years. Their determined emphasis on balancing risk and reward, mitigating potential losses and maintaining the financial integrity of the balance sheet, as opposed to pursuing high-risk and speculative investments, has allowed the Company to maintain one of the strongest balance sheets in the industry as evidenced by its investment grade rating.

**M.D.C. HOLDINGS, INC.** - *2014 Proxy Statement*    **i**



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The achievements of the Company in 2013, as outlined below, are directly attributed to their outstanding leadership.

**Full Year 2013 Highlights**

- Net income of \$314.4M, or \$6.34 per diluted share vs. \$62.7M, or \$1.29 per diluted share in 2012

- Pretax income more than doubled overall and more than tripled for the homebuilding segment

- Includes benefit from \$187.6M reversal of deferred tax asset allowance in 2013 second quarter

- Home sale revenues increased 41% year-over-year to \$1.63B

- Double-digit increases for both home deliveries and average selling price

- Pretax operating margin for homebuilding improved by 340 basis points to 6.2%

- Improvement in both gross margin from home sales and SG&A rate

- Monthly net home orders improved 21% to 2.5

- Acquired almost 8,000 lots in 168 communities, including 128 new communities

- Active community count is now growing, setting the stage for success in 2014 and beyond

- \$350M of 30 year unsecured bonds issued at 6.0% interest rate

- New \$450M unsecured line of credit negotiated with an accordion feature to increase up to \$1.0B

- Liquidity improved by 75% to \$1.24B

- Stockholders' equity increased by 38% to \$1.21B

- Industry-leading dividend of \$1.00 per share (paid in advance in December 2012)

Mr. Mizel and Mr. Mandarich have achieved success in 2013 through their strategy of focusing on and balancing risk and reward – the pursuit of earnings and growth – while mitigating risk and maintaining the financial integrity of the Company. Their discipline has allowed the Company to preserve one of the strongest balance sheets in the industry in the face of volatile and uncertain economic conditions, as evidenced by maintaining our long-held investment grade ratings (one of only two homebuilders in the industry with an investment grade rating by two of the major rating agencies).

**Investment Grade Rating**

*MDC is one of only two homebuilders to maintain an “investment grade” rating from two major agencies through the downturn*

Maintaining a strong balance sheet is central to the Company’s long term operating philosophy. As such, incentivizing executive performance, balanced with risk/reward considerations, is carefully considered by the Compensation Committee when determining the various components of executive compensation each year.

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## **Executive Compensation Overview**

The Committee believes that there is a strong link between long-term shareholder value and (1) return on equity and (2) earnings per share growth, particularly the profits generated by the Company's core homebuilding business. As such, for 2013 the Committee based the performance goal for our Chief Executive Officer (CEO) and Chief Operating Officer (COO) on achieving specified objectives for both return on equity and homebuilding pre-tax income per share, excluding any one-time charges attributable to debt extinguishment ("Homebuilding EPS"). Also, when establishing the 2013 Performance Goal, the Committee carefully considered the appropriateness of the thresholds established for Homebuilding EPS given the Company's emphasis on risk management, financial stability, and long-term value.

In addition to requiring a base minimum return on equity exceeding 6% as a condition precedent to the award of any bonus at all, the Committee established a range of Homebuilding EPS thresholds, including a minimum, target and maximum, as illustrated in the chart below. A description of the 2013 Performance Goal established by the Committee was included in the 2013 Proxy Statement, prior to the Company receiving shareholder approval of its 2013 Executive Officer Performance-Based Compensation Plan ("2013 Performance-Based Plan") and a 96% positive advisory shareholder vote on executive compensation.

2013 Performance Goal:  
Homebuilding EPS

*Performance goal was achieved at the maximum level*

\*Excludes \$0.21 per share of 2012 non-recurring legal recoveries

By linking the performance goal to the Company's homebuilding earnings per share (as opposed, for example, to a "total shareholder return"), the Committee determined that the annual bonus would be directly dependent on the actual defined performance specified by the Committee. While total shareholder returns (TSRs) are used by some compensation committees, TSRs are generally impacted by external factors that are beyond the control of our executives and can cause a disconnect between compensation and their superior or inferior performance. The Committee strives to align the executive's interest with the shareholders by balancing short-term objectives with long-term rewards. The Committee believes that short-term performance should be based on factors that the executives can directly influence. The Committee addresses long-term shareholder returns through long-term equity compensation.



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The 2013 Performance Goal was achieved at the maximum level by our CEO and COO and constituted over 80% of their total compensation for the year. They received the same base pay for the past ten years. They were not granted any equity compensation in 2013.<sup>1</sup>

The Company reinforced its commitment to pay for performance in 2013 by the termination of post-retirement pension benefit accruals effective June 30, 2013.

### **2013 Positive Shareholder Advisory Vote on Say on Pay**

In 2013, the Company received a 96% positive advisory shareholder vote on executive compensation. The Company believes that its positive advisory vote was the result of:

- A commitment to ongoing dialogue with its shareholders, including inquiries representing more than 40 percent of shares not held by affiliates each year from 2012 through 2014, with regard to executive compensation;
- Aligning the Company's executive compensation design and governance with shareholder interests utilizing shareholder feedback and the guidance of an independent compensation consultant; and
- The significant changes to its short and long-term incentive design, as well as the modifications to its compensation governance practices in prior periods (2011 and 2012).

### **2013 CEO Executive Compensation**

1. Base Annual Salary. \$1 million (no increase).

2. 2013 Annual Bonus Incentive. The 2013 Performance Goal contained the following features (as previously described in the 2013 Proxy Statement):

- First, there was a *condition precedent* for payment of any bonus under the 2013 Performance Goal that the adjusted pre-tax return on beginning equity (excluding any charge for debt extinguishment) must exceed 6 percent.

- Second, a bonus amount was earned based on the Company achieving specified objectives for homebuilding pre-tax income per weighted average diluted share outstanding, excluding any charge for debt extinguishment ("Homebuilding EPS"). In particular:

- An objective of \$0.76 of Homebuilding EPS was required to earn a bonus of \$3.5 million. This represented a 62% increase over 2012 (excluding \$0.21 per share of 2012 non-recurring legal recoveries). Homebuilding EPS below

this objective would result in no bonus.

A target objective of \$0.90 of Homebuilding EPS was required to earn a bonus of \$6 million. This represented a 91% increase over 2012 Homebuilding EPS (excluding \$0.21 per share of non-recurring legal recoveries).

A range of intermediate objectives up to a Homebuilding EPS of \$1.87 were required to earn up to a maximum bonus of \$10 million. This maximum bonus constituted almost a threefold increase in Homebuilding EPS (excluding the \$0.21 per share in non-recurring legal recoveries).

3. Post Retirement Benefits. Terminated effective June 30, 2013.

4. Stock Based Compensation. No stock-based compensation was granted in 2013.

### 2013 Annual Incentive Results

The 2013 annual bonus incentive was earned at the maximum amount of \$10 million.<sup>2</sup> In particular:

• The Company attained a pre-tax return on beginning equity of 15%, exceeding the required threshold of 6%, which was the condition precedent.

• The Company attained a Homebuilding EPS of \$2.05, which was 336% higher than the Homebuilding EPS achieved in 2012 (excluding \$0.21 per share of non-recurring legal recoveries) and exceeded the \$1.87 maximum threshold required for the maximum bonus.

*1 As a part of the Committee's commitment to pay for performance, a long-term equity incentive grant was awarded in 2012 subject to performance vesting. A three year time limit was set for the achievement of the established performance vesting goals. The award was in lieu of any further equity grants until 2015.*

*2 See calculation in the "2013 Annual Incentive Bonus Awards" section under Compensation Discussion and Analysis below.*

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*Total CEO Compensation for 2013<sup>3</sup>*

As shown in the graph below, Total Compensation for the CEO increased from 2012 to 2013 as a result of the Company's maximum achievement of the 2013 Performance Goal established by the Compensation Committee in accordance with the shareholder-approved 2013 Performance-Based Plan.

**Total Compensation for 2013 - CEO**

**2014 CEO Compensation**

In 2014, our CEO will receive the same base pay that he has for the past ten years. He will not receive any equity awards or options for 2014. The only incentive compensation he will receive will need to be earned in accordance with the terms of the shareholder approved 2013 Performance-Based Plan. The principal terms of the 2014 Performance Goal established by the Compensation Committee under the 2013 Performance-Based Plan are as follows:

- First, there is a *condition precedent* for any payment under the Performance Goal requiring that the adjusted pre-tax return on beginning equity (excluding any charge for debt extinguishment) must exceed 6.5 percent.

- Second, earnings per share (pre-tax income divided by the weighted average fully diluted shares outstanding for 2014 and excluding any charges or expenses incurred in the early extinguishment of debt) ("Pretax EPS") must be achieved, using a range of fourteen possible thresholds (with corresponding bonus levels ranging from zero to a maximum of \$10.0 million). The following represent the minimum, target and maximum thresholds:

—An objective of \$1.61 of Pretax EPS must be achieved to earn a bonus of \$2.0 million. Pretax EPS below this objective would result in no bonus.

—A target objective of \$2.41 of Pretax EPS to earn a bonus of \$6 million.

—A maximum objective of \$4.01 of Pretax EPS to earn a bonus of \$10 million.

These thresholds were established based on the Compensation Committee's review of the internal Company forecasts as well as general and industry specific economic conditions. The maximum bonus of \$10.0 million for 2014 is equal to the bonus earned by the executive for 2013 and requires the Company to increase Pretax EPS by more than 50% for

2014. If Pretax EPS in 2014 is less than the \$4.01 maximum threshold, the bonus for the executives will decrease in 2014. An increase in the bonus which can be paid to the CEO for 2014 is not possible based on the 2014 Performance Goal.

### **Recommendation for Vote in Favor of Company's Executive Compensation**

Based on the Company's achievement of the 2013 Performance Goal under the shareholder approved 2013 Performance-Based Plan and the accomplishments of the executive officers as described in this Proxy Statement, the Board of Directors is recommending an affirmative non-binding vote approving the compensation of the Company's named executive officers.

*3 In the 2013 Proxy Statement, the Company calculated and disclosed "Total Realized Compensation" as a supplement to its Total Compensation disclosure required by the SEC. However, Total Realized Compensation was not included in this Proxy Statement as it did not differ significantly from Total Compensation in 2012 or 2013.*



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

**4350 South Monaco Street, Suite 500  
Denver, Colorado 80237**

**Notice of Annual Meeting  
of Shareholders**

**Monday, May 19, 2014**

**8:00 a.m. Mountain Time,**

*4350 South Monaco Street, 6<sup>th</sup> Floor, Assembly Room, Denver, Colorado*

To Our Shareholders:

The 2014 Annual Meeting of Shareholders (the “Meeting”) of M.D.C. Holdings, Inc. (the “Company”) will be held at 4350 South Monaco Street, 6<sup>th</sup> Floor, Assembly Room, Denver, Colorado, on Monday, May 19, 2014, at 8:00 a.m., Mountain Time. Only shareholders of record at the close of business on March 21, 2014, the record date, will be entitled to vote. At the Meeting, we plan to consider and act upon the following matters:

1. the election of David D. Mandarich, Paris G. Reece III and David Siegel as Class II Directors for three-year terms expiring in 2017;
2. a non-binding advisory vote to approve the compensation of our named executive officers disclosed in this proxy statement; and
3. ratification of the selection of Ernst & Young LLP as the Company’s independent registered public accounting firm for the 2014 fiscal year.

And such other business as properly may come before the Meeting and any postponements or adjournments thereof.

Our Board of Directors recommends that you vote **FOR** all Proposals.

**Important Notice Regarding the Availability of Proxy Materials  
for the Shareholder Meeting to Be Held on May 19, 2014:**

**The Proxy Statement and the Annual Report on Form 10-K are available at:  
[www.rdgir.com/mdc-holdings-inc](http://www.rdgir.com/mdc-holdings-inc)**

Management and the Board of Directors desire to have maximum representation at the Meeting and request that you vote promptly, even if you plan to attend the meeting.

**BY ORDER OF THE BOARD OF DIRECTORS,**

Denver, Colorado **Joseph H. Fretz**  
March 24, 2014 *Secretary*

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

**4350 South Monaco Street, Suite 500  
Denver, Colorado 80237**

## **PROXY STATEMENT**

### **ANNUAL MEETING OF SHAREHOLDERS**

**May 19, 2014**

### **GENERAL INFORMATION**

#### **Why am I receiving these materials?**

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors (the “Board of Directors” or the “Board”) of M.D.C. Holdings, Inc. (the “Company”) to be used at the Annual Meeting of Shareholders of the Company (the “Meeting”) to be held at our principal executive offices, 4350 South Monaco Street,<sup>16</sup>6Floor, Assembly Room, Denver, Colorado 80237, on Monday, May 19, 2014, at 8:00 a.m., Mountain Time, and any postponements or adjournments thereof. The record date for determining Shareholders entitled to vote at the Meeting is March 21, 2014 (the “Record Date”). The Meeting is being held for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders. Our shareholders are invited to attend the meeting and are encouraged to vote on the matters described in this Proxy Statement.

#### **What proxy materials are being delivered?**

We are utilizing the rules of the Securities and Exchange Commission (“SEC”) that allow us to deliver proxy materials to our Shareholders on the Internet. Under these rules, we are sending most of our Shareholders a Notice of Internet Availability of Proxy Materials (the “Notice”) instead of a full set of proxy materials. If you receive the Notice, you will not receive printed copies of the proxy materials unless you specifically request them. Instead, the Notice tells you how to access and review on the Internet all of the important information contained in the proxy materials. The Notice also tells you how to vote your proxy card on the Internet and how to request a printed copy of our proxy materials. We expect to mail, or provide the Notice and electronic delivery of, this Proxy Statement, the proxy card and the Notice of Annual Meeting (the “Proxy Materials”) on or about March 27, 2014.

The Company’s 2013 Annual Report on Form 10-K, which includes the Company’s 2013 audited financial statements, will accompany these Proxy Materials. Except to the extent expressly referenced in this Proxy Statement, the Annual Report is not incorporated into this Proxy Statement.

**Who is paying for this proxy solicitation?**

The Company will pay the cost of solicitation. The Company also will reimburse bankers, brokers and others holding shares in their names or in the names of nominees or otherwise for reasonable out-of-pocket expenses incurred in sending the Proxy Materials to the beneficial owners of such shares. In addition to the original solicitation of proxies, solicitations may be made in person, by telephone or by other means of communication by Directors, officers and employees of the Company, who will not be paid any additional compensation for these activities.

We have retained the services of Alliance Advisors, LLC to solicit proxies. We will pay all reasonable costs associated with such firm, which we anticipate will not exceed \$12,500 plus costs and expenses.

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## **Who is entitled to vote at or attend the Annual Meeting?**

Holders of shares of the Company's common stock, \$.01 par value (the "Common Stock") at the close of business on the Record Date are entitled to notice of, and to vote at, the Meeting. All shareholders of record and beneficial owners wishing to attend the Meeting must bring with them a government issued picture identification of themselves and check in at the registration desk at the meeting. Beneficial owners must also bring proof of ownership as described below. Attendees must comply with the rules of conduct available at the registration desk. A list of shareholders of record entitled to vote at the Meeting will be available for examination by any shareholder at the Meeting and for ten days prior to the Meeting at our principal executive offices.

Shareholders will have sufficient time immediately following the Annual Meeting, to ask questions of and have a dialogue with the Company's Chairman and CEO, President and COO, and each of the members of the Board of Directors in attendance regarding, among other things, the Company's executive compensation policy and pay practices.

**Shareholders of Record.** If, on the Record Date, your shares were registered directly in your name with the Company's transfer agent, Continental Stock Transfer & Trust Company, then you are a shareholder of record. As a shareholder of record, you may vote in person at the meeting or vote by proxy.

**Beneficial Owners.** If, on the Record Date, your shares were not held in your name, but rather were held in an account at a brokerage firm, bank or other nominee (commonly referred to as being held in "street name"), or through our 401(k) savings plan, you are the beneficial owner of those shares. The organization holding your account is considered to be the shareholder of record for purposes of voting at the annual meeting. As a beneficial owner, you have the right to direct your broker or other nominee regarding how to vote the shares held in your account. You are also invited to attend the Annual Meeting. However, since you are not the shareholder of record, you may not vote your shares in person at the meeting unless you obtain a valid legal proxy from your broker or other nominee and bring the legal proxy to the annual meeting. (Legal proxies are not available for shares held through our 401(k) savings plan; you must vote those shares as provided below.) If you want to attend the annual meeting, but not vote at the annual meeting, you must provide proof of beneficial ownership as of the Record Date, such as your most recent account statement prior to the Record Date.

## **How do I vote my shares?**

**By Telephone or the Internet.** Shareholders can vote their shares via telephone or the Internet as instructed in the Notice of Internet Availability of Proxy Materials. The telephone and Internet procedures are designed to authenticate a stockholder's identity, allow stockholders to vote their shares and confirm that their instructions have been properly recorded. The telephone and Internet voting facilities will close at 11:59 p.m., Eastern Time, on May 18, 2014. (Participants in our 401(k) savings plan have an earlier deadline – see below.)

**By Mail.** Shareholders who receive a paper proxy card may vote by mail and should complete, sign and date their proxy card and mail it in the pre-addressed envelope that accompanied the delivery of the paper proxy card. Proxy cards submitted by mail must be received by the time of the meeting in order for your shares to be voted. Beneficial Shareholders (shares held in street name) may vote by mail by requesting a paper proxy card according to the instructions received from their broker or other agent, and then completing, signing and dating the voting instruction card provided by the broker or other agent and mailing it in the pre-addressed envelope provided.

**401(k) Savings Plan.** If your shares are held through our 401(k) savings plan, you will receive the Notice of Internet Availability of Proxy Materials, or copies of the Proxy Materials, and you are entitled to instruct the plan trustee how to vote the shares allocated to your account following the instructions described above. You must provide your instructions no later than 11:59 p.m., Eastern Time, on May 13, 2014.

**At the Meeting.** Shares held in your name as the shareholder of record may be voted by you in person at the Annual Meeting. Shares held beneficially in street name may be voted by you in person at the Annual Meeting only if you obtain a legal proxy from the broker or other agent that holds your shares, giving you the right to vote the shares, and you bring the legal proxy to the Annual Meeting.

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### **What if I receive more than one Notice of Internet Availability of Proxy Materials?**

If you receive more than one Notice, you hold shares in more than one name or shares in different accounts. To ensure that all of your shares are voted, you will need to vote separately by telephone or the Internet using the specific control number contained in each Notice that you receive.

### **Can I change my vote or revoke my proxy?**

You can change your vote or revoke your proxy before the Meeting. You can do this by casting a later proxy through any of the available methods described above. If you are a shareholder of record, you can also revoke your proxy by delivering written notice of revocation to the Secretary of the Company, by presenting to the Company a later-dated proxy card executed by the person executing the prior proxy card or by attending the Meeting and voting in person. If you are a beneficial owner, you can revoke your proxy by following the instructions sent to you by your broker, bank or other agent.

### **How are votes counted?**

Shares of Common Stock represented by properly executed proxy cards, or voted by proxy by telephone or the Internet, and received in time for the Meeting will be voted in accordance with the instructions specified in the proxies. Unless contrary instructions are indicated in a proxy, the shares of Common Stock represented by such proxy will be voted **FOR** the election as Directors of the nominees named in this Proxy Statement and **FOR** all of the other proposals. If you grant a proxy (other than for shares held in our 401(k) savings plan), either of the officers named as proxy holders, Michael Touff and Joseph H. Fretz, or their nominees or substitutes, will have the discretion to vote your shares on any additional matters that are properly presented for a vote at the Meeting or at any adjournment or postponement that may take place. If, for any unforeseen reason, any of our nominees is not available as a candidate for director, the persons named as the proxy holder may vote your proxy for another candidate or other candidates nominated by our Board.

The trustee of the 401(k) savings plan is authorized to vote the shares of Common Stock allocated to participant accounts as instructed by the participants. If the 401(k) trustee does not receive voting instructions from a participant, or if instructions are not received in a timely fashion, the trustee will vote the participant's shares of Common Stock in the same proportions as the participants who affirmatively directed their shares of Common Stock to be voted, unless the plan administrator determines that a pro rata vote would be inconsistent with its fiduciary duties under the Employee Retirement Income Security Act ("ERISA"). If the plan administrator makes such a determination, the trustee will vote the Common Stock as the plan administrator determines is consistent with its fiduciary duties under ERISA.

The inspector of elections designated by the Company will use procedures consistent with Delaware law concerning the voting of shares, the determination of the presence of a quorum and the determination of the outcome of each matter submitted for a vote.

**What are the voting requirements?**

Each share of Common Stock issued and outstanding on the Record Date, other than shares held by the Company or a subsidiary, is entitled to one vote on each matter presented at the Meeting. As of the Record Date, approximately 48,821,676 shares of Common Stock were issued, outstanding and entitled to vote.

The Company's By-Laws provide that the holders of one-third of the shares of Common Stock issued and outstanding and entitled to vote, present in person or represented by proxy, constitute a quorum for transacting business at the Meeting. Shareholders who are present in person or represented by proxy, whether they vote for, against or



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abstain from voting on any matter, will be counted for purposes of determining whether a quorum exists. Broker non-votes, described below, also will be counted as present for purposes of determining whether a quorum exists.

The affirmative vote of the holders of a plurality of the shares of Common Stock present in person or represented by proxy and entitled to vote at the Meeting will be required for the election of a nominee to the Board of Directors (which means that the three nominees who receive the most votes will be elected). The affirmative vote of the holders of a majority of the shares of Common Stock represented and entitled to vote at the Meeting is necessary (i) for advisory approval of the executive compensation practices disclosed in this proxy statement and (ii) to ratify the appointment of the Company's auditor. Because your vote on executive compensation is advisory, it will not be binding upon the Company.

Rules of the New York Stock Exchange ("NYSE") determine whether NYSE member organizations ("brokers") holding shares for an owner in street name may vote on a proposal without specific voting instructions from the owner. For certain types of proposals, the NYSE has ruled that the "broker may vote" without specific instructions and on other types of proposals the "broker may not vote" without specific client instructions. A "broker non-vote" occurs when a proxy is received from a broker and the broker has not voted with respect to a particular proposal. The proposal to ratify the selection of the auditor is a "broker may vote" matter under the rules of the NYSE. As a result, brokers holding shares for an owner in street name may vote on the proposal even if no voting instructions are provided by the beneficial owner. The proposals to elect directors and for advisory approval of executive compensation practices are "broker may not vote" matters. As a result, brokers holding shares for an owner in street name may vote on these proposals only if voting instructions are provided by the beneficial owner.

The following table reflects the vote required for the proposals and the effect of broker non-votes, withhold votes and abstentions on the vote, assuming a quorum is present at the Meeting:

<b>Proposal</b>	<b>Vote Required</b>	<b>Effect of Broker Non-Votes, Withhold Votes and Abstentions</b>
1. Election of Directors	The three nominees who receive the most votes will be elected.	Broker non-votes and withhold votes have no legal effect.
2. Advisory vote to approve executive compensation (Say on Pay)	Affirmative vote of the holders of a majority of the shares of Common Stock represented and entitled to vote at the Meeting.	Broker non-votes have no legal effect; abstentions have the same effect as a vote against the proposal.
3. Selection of Auditor	Affirmative vote of the holders of a majority of the shares of Common Stock represented and entitled to vote at the Meeting.	Broker non-votes have no legal effect; abstentions have the same effect as a vote against the proposal.

Management and the Board of Directors of the Company know of no other matters to be brought before the Meeting. If any other proposals are properly presented to the shareholders at the Meeting, the number of votes required for approval will depend on the nature of the proposal. Generally, under Delaware law and our By-Laws, the number of votes required to approve a proposal is the affirmative vote of a majority of the shares of Common Stock present in person or represented by proxy and entitled to vote at the Meeting. The proxy card gives discretionary authority to the proxy holders to vote on any matter not included in this Proxy Statement that is properly presented to the Shareholders at the Meeting and any adjournments or postponements thereof. The persons named as proxies on the proxy card are Michael Touff, the Company's Senior Vice President and General Counsel, and Joseph H. Fretz, the Company's Secretary and Corporate Counsel.

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## **HOUSEHOLDING OF PROXY MATERIALS**

The broker, bank or other nominee of any shareholder who is a beneficial owner, but not the record holder, of the Company's Common Stock may deliver only one copy of the proxy related materials to multiple Shareholders sharing an address (a practice called "householding"), unless the broker, bank or nominee has received contrary instructions from one or more of the Shareholders.

In addition, with respect to Shareholders of record, in some cases, only one copy of the proxy related materials may be delivered to multiple Shareholders sharing an address, unless the Company has received contrary instructions from one or more of the Shareholders. Upon written or oral request, the Company will deliver free of charge a separate copy of each of the proxy related materials, as applicable, to a shareholder at a shared address to which a single copy was delivered. You can notify your broker, bank or other nominee (if you are not the record holder) or the Company (if you are the record holder) that you wish to receive a separate copy of such materials in the future, or alternatively, that you wish to receive a single copy of the materials instead of multiple copies. The Company's contact information for these purposes is: M.D.C. Holdings, Inc., telephone number: (303) 773-1100, Attn: Corporate Secretary, 4350 South Monaco Street, Suite 500, Denver, CO 80237.

## **CORPORATE GOVERNANCE**

### **Director Independence**

Each of Messrs. Raymond T. Baker, Michael A. Berman, David E. Blackford, Herbert T. Buchwald and David Siegel are independent, as is Paris G. Reece III, who was appointed to the Board on May 20, 2013. NYSE listing standards require that the Board of Directors be comprised of a majority of independent directors. SEC rules and NYSE listing standards require that audit committees be comprised solely of independent directors. NYSE listing standards also require that corporate governance/nominating committees and compensation committees be comprised solely of independent directors.

Under the NYSE listing standards, no director qualifies as "independent" unless the Board of Directors affirmatively determines that the director has no material relationship with the Company, either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company. Material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others. The NYSE listing standards also require that, in determining the independence of any director who will serve on the Company's Compensation Committee, the Board of Directors consider all factors specifically relevant to determining whether the director has a relationship with the Company that is material to that director's ability to be independent from management in connection with the duties of a Compensation Committee member, including the source of compensation of such director and whether the director is affiliated with the Company (or a subsidiary or affiliate of a subsidiary).

The Board has adopted standards of independence to assist in determining whether a director of the Company (“Director”) is independent. The standards are available on the investor relations section of the Company’s website, [www.mdcholdings.com](http://www.mdcholdings.com).

The Company’s Board of Directors has determined the independence of Directors based on a review conducted by the Corporate Governance/Nominating Committee. This determination included consideration of the Company’s investment in corporate fixed-income and preferred stock securities offered in the normal course of business by Zions Bancorporation (“Zions”), of which Mr. Blackford is an officer, and the deposit accounts the Company maintained at two of Zions’ subsidiary banks. The Board also considered Zions’ participation as one of several lenders in the Company’s new revolving credit facility, and the Company’s purchase from various parties, including California Bank & Trust, on market terms, of debt interests in certain real estate. Mr. Blackford had no direct or indirect material interest in the foregoing transactions and the Board concluded that the amounts involved were not significant.

With respect to the determination of Mr. Reece’s independence, the Board considered that, until his retirement on August 1, 2008, he was the Executive Vice President and Chief Financial Officer of the Company, that he is serving in a volunteer position as president of a non-profit organization (Cancer League of Colorado) that has received charitable contributions from the Company and some Company officers, and in 2012 the Company paid Mr. Reece for consulting services in connection with a review of financial reporting procedures and the 2011 Form 10-K. Since his retirement, Mr. Reece has also been performing limited financial oversight services for and received a carried investment in a small movie investment company funded in part by entities controlled by the Company’s Chief Executive Officer and his brother. Mr. Reece’s son has also provided video services to Richmond American Homes of Colorado, Inc. as an outside contractor for compensation of less than \$35,000. The Board concluded that the amounts involved were not significant.

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The Board determined that each of Messrs. Raymond T. Baker, Michael A. Berman, David E. Blackford, Herbert T. Buchwald, Paris G. Reece III and David Siegel have no material relationship with the Company, each is independent under the NYSE listing standards and each meets the foregoing standards of Director independence adopted by the Board, including for Audit and Compensation Committee membership. The Board also determined that each of the foregoing Directors meets the independence standards for Audit Committee membership under the rules of the SEC. The Board also determined that each of Messrs. Baker, Berman, Blackford, Buchwald and Siegel is an “outside director” within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”), and the Section 162(m) regulations.

**Frequent Meetings of the Board of Directors and Board Committees**

The Board of Directors and the Audit Committee generally hold regular monthly meetings and additional meetings as necessary. The other Board committees hold meetings, as may be required. The following table shows the frequency of the Board and Board committee meetings over the last three years:

	2013	2012	2011
Board of Directors	15	12	17
Audit Committee	11	12	12
Compensation Committee	11	17	10
Corporate Governance/Nominating Committee	5	8	5
Legal Committee	10	10	8

**Asset Management Committee**

The Company has in place an Asset Management Committee (“AMC”). Currently, the AMC consists of three committees (for reviewing real estate and corporate transactions) and our Chief Operating Officer is a member of each of these committees. The AMC generally meets weekly to review all proposed real estate transactions and other proposed non-real estate transactions at or above certain thresholds. Transactions that exceed certain thresholds also are reviewed by an executive committee of senior officers and the Board of Directors.

**Lead Director**

The Board has designated Herbert T. Buchwald, an independent member of the Board, as Lead Director. Mr. Buchwald is the Chairman of the Audit Committee, a member of the Compensation, Legal and Corporate Governance/Nominating Committees, and is the Company’s Audit Committee Financial Expert. Among other responsibilities, the Lead Director advises the Chairman of the Board as to the quality, quantity and timeliness of the flow of information to permit the independent Directors to effectively and responsibly perform their duties, assists in

providing effective corporate governance in the management of the affairs of the Board and the Company, advises the Chairman as to an appropriate schedule of Board and Committee meetings, provides input as to meeting agendas and topics, coordinates and provides guidance to the committee chairmen and independent Directors in the performance of their duties, coordinates the agenda for and presides at executive sessions of the independent Directors, facilitates the process of conducting Committee and Board self-evaluations, acts as a liaison between the independent Directors and the Chairman of the Board, as deemed necessary, and performs such other responsibilities as may be delegated to the Lead Director by the Board from time to time.

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## **Corporate Governance/Nominating Committee**

The Board of Directors has established a Corporate Governance/Nominating Committee, consisting of Messrs. Siegel, Buchwald and Blackford, who serves as its Chairman. Each member of the committee is independent as defined in the listing standards of the NYSE. The organization, functions and responsibilities of the committee are described in the Corporate Governance/Nominating Committee charter, which is posted under the corporate governance documents on the investor relations section of the Company's website, [www.mdcholdings.com](http://www.mdcholdings.com). See also "Information Concerning the Board of Directors" below.

## **Corporate Governance Guidelines**

Upon the recommendation of the Corporate Governance/Nominating Committee, the Board of Directors adopted a set of corporate governance guidelines to implement requirements of the NYSE. These guidelines, as amended, are posted under the corporate governance documents on the investor relations section of the Company's website, [www.mdcholdings.com](http://www.mdcholdings.com).

## **Hedging or Pledging of Company Stock**

Our directors and executive officers are prohibited from acquiring an interest in financial instruments intended to hedge or offset any decrease in the market value of the Company's stock held directly or indirectly by that person. They also are required to inform the Company's compliance committee and obtain pre-clearance prior to purchasing Company stock on margin, margining Company stock or pledging Company stock as collateral for a loan.

## **Equity Ownership Guidelines for Non-Employee Directors and for Executive Officers**

In order to evidence the financial alignment of the Company's Directors with the interests of the Company's Shareholders, the Corporate Governance/Nominating Committee and the Board of Directors have established Equity Ownership Guidelines for Directors who are not employees of the Company. Under these guidelines, each Director is encouraged to acquire and maintain ownership of Common Stock with an acquisition value, measured at the time of acquisition, of not less than ten times the annual amount of the retainer paid for serving on the Board of Directors. The annual amount of the retainer currently is \$60,000 resulting in a current stock ownership goal of \$600,000 for those Directors who have not previously achieved the goal. The Directors who have not yet achieved the goal have agreed, upon their future exercise of stock options, to retain the shares they acquire, net of the exercise price and taxes, up to the number of shares necessary to achieve the goal. All Directors are in compliance with the Guidelines. Three of the six non-employee Directors have attained the stock ownership goal.

The Company's executive officers as a group have historically maintained a very high level of ownership of Company stock, especially when compared against other companies in the homebuilding industry. For example, Messrs. Mizel, Mandarich, Stephens and Touff beneficially own shares totaling approximately 26% of the Company's shares. *See* Beneficial Ownership of Common Stock – Ownership of Directors and Officers, below. Nonetheless, in response to feedback received from the investor community, the Company has adopted equity ownership guidelines for executive officers in order to expressly evidence their financial alignment with the interests of the shareholders of the Company. Under the guidelines, each executive officer is encouraged to acquire and maintain ownership of Common Stock of the Company having an acquisition value of not less than the following multiple of the executive officer's base annual salary:

**Executive Officer Multiple**

CEO	5X
COO	5X
All Others	1X

To expedite achievement of the goal set forth above, each executive officer who has not yet achieved the goal agrees to retain the shares they acquire through restricted stock awards and the future exercise of employee stock options net of taxes and any option exercise price up to the number of shares necessary to achieve the goal. Messrs. Mizel, Mandarich and Touff have achieved the stock ownership goal. Mr. Stephens, although he has not yet attained the stock ownership goal, is in compliance with the guidelines.



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## **Regularly Scheduled Executive Sessions of Non-Management Directors**

The Company's corporate governance guidelines provide for the non-management Directors to meet at regularly scheduled executive sessions without management present. All six of the Company's non-management directors are independent, as discussed above. The Lead Director presides at the executive sessions. In 2013, five executive sessions were held.

## **Communications with the Board of Directors**

Shareholders and other interested parties may contact the independent Directors and the Board of Directors by using the procedures established by the Audit Committee for receipt of complaints and concerns regarding accounting or auditing matters. These procedures are posted under the corporate governance documents in the investor relations section of the Company's website, [www.mdcholdings.com](http://www.mdcholdings.com).

Alternatively, communications may be sent directly to Mr. Blackford, Chairman of the Corporate Governance/Nominating Committee, at 1900 Main Street, 2<sup>nd</sup> Floor, Irvine, CA 92614. Any communications received by the Company's compliance committee, which come within the purview of a Board committee and/or the Board, will be forwarded to the committee chair or the Lead Director, as applicable.

## **Committee Charters**

The Board of Directors has adopted a charter for the Audit Committee, designed to comply with the applicable requirements of the NYSE listing standards and SEC regulations. The Board of Directors also has adopted charters for the Compensation Committee and the Corporate Governance/Nominating Committee, designed to comply with the applicable requirements of the NYSE listing standards, and a charter for the Legal Committee. These charters are posted under the corporate governance documents on the investor relations section of the Company's website, [www.mdcholdings.com](http://www.mdcholdings.com).

## **Corporate Code of Conduct**

For many years, the Company has had in place a Corporate Code of Conduct designed to provide that all persons associated with the Company, including employees, officers and Directors, follow the Company's compliance program and legal and ethical obligations and conduct themselves accordingly. The Corporate Code of Conduct includes, among other things, a code of ethics for senior financial officers and Audit Committee complaint procedures, as

required by the Sarbanes-Oxley Act and SEC regulations. The Corporate Code of Conduct, the code of ethics for senior financial officers and the Audit Committee complaint procedures for handling confidential complaints regarding accounting or auditing matters are posted under the corporate governance documents on the investor relations section of the Company's website, [www.mdcholdings.com](http://www.mdcholdings.com).

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[Back to Contents](#)**BENEFICIAL OWNERSHIP OF COMMON STOCK****Ownership of Directors and Officers**

Certain information, as of March 21, 2014, the Record Date, with respect to Common Stock beneficially owned by the Company's named executive officers, the nominees for election as Directors and the current Directors of the Company, furnished in part by each such person, appears below (unless stated otherwise, the named beneficial owner possesses the sole voting and investment power with respect to such shares). None of the shares beneficially owned by the executive officers and Directors have been pledged as security.

Name of Executive Officer/Director	Number of Shares of Common Stock Owned Beneficially <sup>1</sup>	Percent of Class <sup>2</sup>
Raymond T. Baker	50,000	*
Michael A. Berman	125,000	*
David E. Blackford	133,550	*
Herbert T. Buchwald	199,098	*
David D. Mandarich	4,660,925	9.2%
Larry A. Mizel	8,193,033	<sup>3</sup> 16.2%
Paris G. Reece III	25,000	*
David Siegel	125,000	*
John M. Stephens	13,150	*
Michael Touff	326,466	*
All current executive officers and Directors as a group (10 persons)	13,851,222	26.2%

\*Represents less than one percent of the shares of Common Stock outstanding and entitled to vote.

*Includes, where applicable, shares of Common Stock owned by related individuals or entities over whose shares such person may be deemed to have beneficial ownership. Also includes the following shares of Common Stock subject to options that are exercisable or become exercisable within 60 days of the Record Date at prices ranging from \$22.41 to \$78.89 per share: Raymond T. Baker 50,000, Michael A. Berman 110,000; David E. Blackford 125,000; Herbert T. Buchwald 182,500; David D. Mandarich 1,634,000; Larry A. Mizel 1,634,000; Paris G. Reece III 25,000; David Siegel 125,000; and Michael Touff 187,334. As a group, the executive officers and Directors had the right to acquire within 60 days of the Record Date by the exercise of options an aggregate of 4,072,834 shares of Common Stock. The exercise prices of many of the stock options are significantly higher than the current market value of our Common stock, i.e. "underwater." See the Outstanding Equity Awards at December 31, 2013 table below.*

*2The percentage shown is based on the number of shares of Common Stock outstanding and entitled to vote as of the Record Date. All shares of Common Stock that the person or group had the right to acquire within 60 days of the Record Date are deemed to be outstanding for the purpose of computing the percentage of shares of Common Stock owned by such person or group, but are not deemed to be outstanding for the purpose of computing the percentage*

*of shares of Common Stock owned by any other person or group.*

<sup>3</sup>*Mr. Mizel has sole voting power and sole investment power over 1,697,703 shares and shared voting power and shared investment power over 6,495,330 shares.*

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[Back to Contents](#)**Ownership of Certain Beneficial Owners**

The table below sets forth information with respect to those persons (other than the officers/directors listed above) known to the Company, as of the Record Date, to have owned beneficially 5% or more of the outstanding shares of Common Stock. The information as to beneficial ownership is based upon statements filed by such persons with the SEC under Section 13(d) or 13(g) of the Securities Exchange Act of 1934, as amended.

Name and Address of Beneficial Owner	Number of Shares of Common Stock Owned Beneficially	Percent of Class <sup>1</sup>
BlackRock, Inc. 40 East 52 <sup>nd</sup> Street New York, NY 10022	4,558,550 <sup>2</sup>	9.3%
State Street Corporation One Lincoln Street Boston, MA 02111	3,244,156 <sup>3</sup>	6.6%
Piper Jaffray Companies 800 Nicollet Mall Suite 500 Minneapolis, MN 55402	2,530,309 <sup>4</sup>	5.2%

*1 The percentage shown is based on the number of shares outstanding and entitled to vote as of the Record Date.*

*Schedule 13G/A filed with the SEC on January 29, 2014 disclosed that: BlackRock, Inc. has sole voting power over 24,417,946 shares, shared voting power over no shares, sole dispositive power over 4,558,550 shares and shared dispositive power over no shares.*

*Schedule 13G filed with the SEC on February 3, 2014 disclosed that: State Street Corporation has sole voting power 3 over no shares, shared voting power over 3,244,156 shares, sole dispositive power over no shares and shared dispositive power over 3,244,156 shares.*

*Schedule 13G/A filed with the SEC on February 13, 2014 disclosed that: the Piper Jaffray Companies have sole 4 voting power over 2,530,309 shares, shared voting power over no shares, sole dispositive power over 2,530,309 shares and shared dispositive power over no shares.*

No change in control of the Company has occurred since the beginning of the last fiscal year. The Company knows of no arrangement the operation of which, at a subsequent date, may result in a change in control of the Company.



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## **PROPOSAL ONE ELECTION OF DIRECTORS**

The Company's Certificate of Incorporation provides for three classes of Directors with staggered terms of office, to be divided as equally as possible. Directors of each class serve for terms of three years until election and qualification of their successors or until their resignation, death, disqualification or removal from office.

Our Board has eight members, consisting of three Class I Directors whose terms expire in 2016, three Class II Directors whose terms expire in 2014 and two Class III Directors whose terms expire in 2015. At the Meeting, three Class II Directors are to be elected to three-year terms expiring in 2017. The nominees for the Class II Directors are David D. Mandarich, Paris G. Reece III and David Siegel. All of the nominees presently serve on the Board of Directors of the Company. Mr. Reece was appointed to the Board in May 2013 following a recommendation made by a non-management director to the Corporate Governance/Nominating Committee and that Committee's recommendation to the Board.

Based on the recommendation of the Corporate Governance/ Nominating Committee, the Board approved the nomination of Messrs. Mandarich, Reece and Siegel for election as Class II Directors.

Unless otherwise specified, proxies will be voted **FOR** the election of Messrs. Mandarich, Reece and Siegel. Management and the Board of Directors are not aware of any reasons that would cause any of Messrs. Mandarich, Reece and Siegel to be unavailable to serve as Directors. If any of them become unavailable for election, discretionary authority may be exercised by the proxy holders named in the proxy to vote for a substitute candidate or candidates nominated by the Board of Directors.

**The Board of Directors recommends a vote FOR the election of Messrs. Mandarich, Reece and Siegel as Directors.**

Certain information, as of March 21, 2014, the Record Date, with respect to Messrs. Mandarich, Reece and Siegel, the nominees for election, and the continuing Directors of the Company, furnished in part by each such person, appears below:

<b>Name</b>	<b>Age</b>	<b>Positions and Offices with the Company and Other Principal Occupations</b>
<b>NOMINEES:</b>		
		<b>Class II Terms Expire in 2014</b>
David D. Mandarich	66	President and Chief Operating Officer of the Company
Paris G. Reece III	59	Private Investor and Community Volunteer
David Siegel	57	Partner, Irell & Manella LLP

**CONTINUING  
DIRECTORS:**

**Class III Terms Expire in 2015**

Raymond T. Baker 63 President of Gold Crown Management Company and Co-Director of the Gold Crown Foundation

David E. Blackford 65 President, Chief Executive Officer and Chairman of the Board of California Bank & Trust

**Class I Terms Expire in 2016**

Michael A. Berman 63 Chairman, Applied Capital Management

Herbert T. Buchwald 83 Principal in the law firm of Herbert T. Buchwald, P.A. and President and Chairman of the Board of Directors of BPR Management Corporation

Larry A. Mizel 71 Chairman of the Board of Directors and Chief Executive Officer of the Company



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## **Other Information Relating to Directors**

**Composition of the Board.** The Company's Board is composed of Directors who bring a diverse breadth of experience and talent to our Company. Fifty percent of the Directors have Board tenure with the Company of less than 10 years and over a third of the Directors have Board tenure of five years or less. Newer Directors bring new ideas and opinions to our Board's deliberations. Other Directors have many years of Board tenure, which provides the Board with a deeper understanding of the homebuilding industry, markets and the cycles that are fundamental to our business. The professional qualifications of the Directors include homebuilding leadership, finance, accounting, legal, regulatory, real estate development, banking, residential real estate, institutional real estate lending and credit markets, among others. In short, the Board encompasses a well-rounded, diverse range of talents and experiences well-suited to guiding the Company in our challenging industry.

In addition, our Board is small enough to have a meaningful and effective exchange of ideas, and realize the benefit of the broad range of our Directors' professional qualifications. This is especially so given the notable frequency with which our Board and Board committees meet, which significantly distinguishes our Company from other public companies. See Frequent Meetings of the Board of Directors and Board Committees, above.

The following is a brief description of the business experience during at least the past five years of each nominee for the Board of Directors of the Company and each of the continuing members of the Board. Their experience, qualifications, attributes or skills, set forth below, have led to the conclusion that each person should serve as a director, in light of the registrant's business and structure.

None of the business organizations identified below (excluding the Company and HomeAmerican Mortgage Corporation) are affiliates of the Company. None of the continuing directors or director nominees holds, or has held during the past five years, any directorship in any company with a class of securities registered pursuant to Section 12 of the Exchange Act, subject to the requirements of Section 15(d) of the Exchange Act or registered as an investment company under the Investment Company Act of 1940.

*Raymond T. Baker* has served as President of Gold Crown Management Company, a real estate asset management company from 1978 to present. He is the founder and has served as Co-Director of the Gold Crown Foundation since 1986. He also is a member of the Board of Directors of Alpine Banks of Colorado, Steele Street State Bank & Trust, and Land Title Guarantee Company. Mr. Baker is currently serving as Chairman of the Board of the Denver Metropolitan Major League Baseball Stadium District and Chairman of the Board of the Metropolitan Football Stadium District (Denver). From February 2004 until May 2007, he served as a director of Central Parking Corporation. He has over thirty-five years experience in the real estate and banking industries. Mr. Baker became a member of the Company's Board of Directors in January 2012. He currently is a member of the Audit and Compensation Committees. His experience and knowledge of the real estate and banking industries directly complement and support the Company's real estate activities and the financing of those activities.

*Michael A. Berman* has over 30 years experience in the financial services industry. He is a member of Applied Capital Management, a private investment management firm located in Scottsdale, Arizona, and has served as its chairman from 2002 to date. From 2005 to 2006, he also served as the chief executive officer of First Ascent Capital, a financial services firm located in New York. From July 2006 until December 2008, he served as president and chief executive officer of Real Estate Equity Exchange, Inc. (Rex & Co.), a financial services firm located in San Francisco, California. From January 1990 to March 1999, Mr. Berman was employed by The Nomura Securities Co., Ltd. (Tokyo) group of companies, where he held several senior executive positions, including that of President and CEO of Nomura Holding America Inc. and Chairman of Capital America, Nomura's commercial real estate lending subsidiary. In April 2006, Mr. Berman became a Director of the Company and, in September 2006, he was appointed a director of HomeAmerican Mortgage Corporation ("HomeAmerican"), the Company's wholly owned mortgage lending subsidiary. Mr. Berman currently is the Chairman of the Compensation Committee. Mr. Berman's experience as a senior executive in corporate finance, in general, and the residential mortgage market, in particular, provide the Company with a valuable resource.

*David E. Blackford* has over 35 years experience in the banking industry. He is employed by California Bank & Trust (CB&T), a leading California banking institution. Between 1998 and 2001, he was the bank's managing director, serving on the board of directors and the Senior Loan Committee for Real Estate Finance. In May 2001 he was appointed chairman, president and chief executive officer of that bank, positions he currently holds. He also is an executive vice president of Zions Bancorporation, the parent company of CB&T. Prior to 1998, he served as an executive officer in several financial institutions, including Bank One and Valley National Bank. He joined the Company's Board of Directors in April 2001. Mr. Blackford currently is the Chairman of the Corporate Governance/Nominating Committee and a member of the Legal Committee. His experience and knowledge of historic and current institutional real estate lending practices, the regulatory process and the volatility of the credit markets provide a unique perspective to the Board.

*Herbert T. Buchwald* is a principal in the law firm of Herbert T. Buchwald, P.A. and president and chairman of the board of directors of BPR Management Corporation, a property management company located in Denver, Colorado, positions he has held for more than the past five years. Mr. Buchwald has been engaged in the acquisition, development and management of residential and commercial real estate in Florida, New Jersey and Colorado, through both publicly and privately held ventures for more than forty years. As an attorney, he has been admitted to practice before federal and state trial and

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appellate courts in Florida and Colorado. In addition, he holds an accounting degree and formerly was a practicing Certified Public Accountant. He has been a member of the Company's Board of Directors since March 1994. Since March 2007, he has served as the Lead Director and he is a member of the Compensation, Legal and Corporate Governance/Nominating Committees and the Chairman of the Audit Committee. The combination of his knowledge, experience and skills provide the Company with strong oversight of accounting, financial, regulatory and legal matters, as well as the operation of the Company's real estate businesses.

*David D. Mandarich* has been associated with the Company since 1977. He was elected President and Chief Operating Officer of the Company in June 1999, a position he currently holds. He previously had been elected Chief Operating Officer in March 1996, Co-Chief Operating Officer in September 1994 and Executive Vice President-Real Estate in April 1993. He was a Director from September 1980 until April 1989, and has been a Director continuously since March 1994. A skilled and experienced leader in the homebuilding industry, Mr. Mandarich provides the Board with the benefit of his judgment and his knowledge and understanding of the Company's homebuilding business and operations.

*Larry A. Mizel* founded the Company in 1972 and has served as a Director and Chairman of the Board since its inception. He was appointed Chief Executive Officer of the Company in 1988, a position he currently holds. Mr. Mizel has provided the Company with leadership and judgment, serving as the Chief Executive Officer and Chairman of the Board of Directors, and working to further the long-term interests of the Company's Shareholders. One of the most experienced leaders in the homebuilding industry, his knowledge and foresight provides the Board with invaluable guidance.

*Paris G. Reece III* was formerly the Company's Chief Financial Officer and Principal Accounting Officer, and retired on August 1, 2008. Since his retirement, Mr. Reece has performed consulting work and served in a volunteer position as the President of the Cancer League of Colorado, a leading non-profit organization that was established more than 40 years ago to raise money for cancer research and patient care. Mr. Reece was appointed to the Company's Board of Directors on May 20, 2013. He currently is a member of the Audit Committee. As a Certified Public Accountant (Texas), a former Chief Financial Officer and a highly respected person within the homebuilding industry, Mr. Reece is uniquely qualified to provide the Company with strong oversight of accounting and financial matters, as well as the operation of the Company's homebuilding and financial services businesses.

*David Siegel* has been a partner in the law firm of Irell & Manella LLP for more than twenty years, where he leads that firm's securities litigation practice and formerly was the firm's Managing Partner. Mr. Siegel's law practice, for which he is nationally recognized, is concentrated on securities class actions, corporate governance, risk management, SEC reporting standards and regulatory compliance. Mr. Siegel has chaired and is a frequent speaker at various seminars on securities litigation, class actions, and trial techniques. He has been named by his peers as one of the "Best Lawyers in Commercial Litigation" in The Best Lawyers in America guide. Mr. Siegel has been a member of the Company's Board of Directors since June 2009. He currently is a member of the Legal Committee. Mr. Siegel's knowledge and experience in corporate governance and litigation matters provide the Company with significant guidance and oversight.



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## **INFORMATION CONCERNING THE BOARD OF DIRECTORS**

During 2013, the Board of Directors held 15 meetings. The Directors also considered Company matters and had numerous communications with the Chairman of the Board of Directors and other officials of the Company wholly apart from the formal Board meetings. In 2013, all of the Company's Directors attended at least 90% of the aggregate number of meetings of the Board of Directors and the committees of the Board of Directors on which they served. Directors are expected to attend the Company's annual meeting of Shareholders and, to facilitate their attendance, annual meetings typically are scheduled the same day as a monthly Board meeting. In 2013, all of the Directors attended the Annual Meeting.

### **Board Leadership and Risk Oversight**

Larry A. Mizel serves as Chairman of the Board of Directors and the Chief Executive Officer of the Company. Mr. Mizel, who founded our Company, has served for 42 years and is the largest shareholder of the Company. He provides effective leadership and guidance as the Chairman in the development of the Company's risk profile, pursuit of its strategic goals and recognition of business opportunities that present themselves.

Herbert T. Buchwald serves as the Company's independent Lead Director. The independent Lead Director presides at the executive sessions of the independent directors and his authority also includes advising the Chairman as to an appropriate schedule of Board and Committee meetings, providing the Chairman of the Board with input as to the preparation of the agendas and topics to be considered at the Board and Committee meetings, coordinating the activities of the various Committees of the Board, advising the Chairman as to the quality, quantity and timeliness of the flow of information from management; and coordinating and developing the agenda for executive sessions of the Board's independent directors.

The Board of Directors convenes on a monthly basis and is comprised of a majority of independent directors. This independent majority and our regulatory governance practices, including periodic executive sessions of the independent directors at which the Lead Director presides, provide an effective and independent oversight of management.

Our Board of Directors bears the responsibility for maintaining oversight over the Company's exposure to risk. The Board, itself and through its Committees, regularly discusses our material risk exposures, the potential impact on the Company and the efforts of management it deems appropriate to deal with the risks that are identified. In meetings with senior management, the head of the internal audit department and the external independent auditors, the Audit Committee reviews regulatory, financial and accounting risk exposure, reserves and the Company's internal controls. The Corporate Governance/Nominating Committee, with the guidance of corporate and outside counsel, considers the risks associated with corporate governance. The Compensation Committee considers risks associated with the elements contained in the Company's compensation programs. The Legal Committee considers the risks that arise

from material litigation, regulatory issues and other legal issues. Our Committees generally report to the Board on a monthly basis.

For the foregoing reasons, the Company has determined that its leadership structure is appropriate given the Company's specific circumstances, the management of risk and the Board's administration of its oversight function.

### **Audit Committee**

The Audit Committee of the Board of Directors, which has been established in accordance with Section 3(a)(58)(A) of the Exchange Act, consists of Messrs. Baker, Reece and Buchwald, who serves as Chairman. Mr. Berman retired from the Committee in May 2013 and Mr. Reece joined at that time. Each member of the Audit Committee is "independent" and "financially literate" in the judgment of the Board of Directors, as defined in the listing standards of the NYSE and the rules of the SEC. In addition, the Board of Directors has determined that Mr. Buchwald is an "audit committee financial expert" as defined by applicable SEC regulations. The Board believes that his experience and qualifications described above under "Other Information Relating to Directors" qualify him to act as the Committee's audit committee financial expert.

The Audit Committee met 11 times during 2013. The organization, functions and responsibilities of the Audit Committee are described in the restated charter for the Audit Committee, which is posted on the investor relations section of the Company's website, [www.mdcholdings.com](http://www.mdcholdings.com).

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The Audit Committee's functions include: assisting the Board in its oversight of the Company's compliance with legal and regulatory requirements, oversight of the Company's external auditors, review of the Company's financial statements, review of the annual audit plan and results of the audit, review of any significant modification in accounting policies, oversight of the duties of the Company's internal audit department and discussion of policies with respect to risk assessment and risk management.

## **Compensation Committee**

The Compensation Committee consists of Messrs. Buchwald, Baker and Berman, who serves as Chairman. During 2013, the Compensation Committee met 11 times. Each member of the committee is independent in the judgment of the Board of Directors, as defined in the listing standards of the NYSE as recently modified by that exchange in 2013. The Compensation Committee approves executive compensation plans, reviews salaries, bonuses and other forms of compensation for officers and key employees of the Company, establishes salary levels, benefits and other forms of compensation for employees and addresses other compensation and personnel matters as the Board of Directors from time to time may request. The organization, functions and responsibilities of the Compensation Committee are described in the Compensation Committee's restated charter, which is posted on the investor relations section of the Company's website, [www.mdcholdings.com](http://www.mdcholdings.com).

For a discussion of the Company's compensation philosophy and a description of the Company's processes and procedures for the consideration and determination of executive and director compensation, see "Compensation Processes and Procedures" and "Compensation Discussion and Analysis" below.

## **Corporate Governance/Nominating Committee**

The Corporate Governance/Nominating Committee consists of Messrs. Siegel, Buchwald and Blackford, who serves as Chairman. Mr. Berman retired from the Committee in November 2013 and Mr. Siegel joined at that time. Each member of the committee is independent in the judgment of the Board of Directors, as defined in the listing standards of the NYSE. During 2013, the committee met five times. The organization, functions and responsibilities of the Corporate Governance/Nominating Committee are described in the committee's charter, which is posted on the investor relations section of the Company's website, [www.mdcholdings.com](http://www.mdcholdings.com). The functions of the Corporate Governance/Nominating Committee include development of and recommendations as to corporate governance principles and the Company's Code of Conduct, identification of individuals qualified to become Board members, the review of Director independence, the selection process for Director nominees and oversight of the self-evaluations of the Board and the Audit, Compensation and Corporate Governance/Nominating Committees.

Procedures for nominating persons for election to the Board are contained in the Company's By-Laws and, accordingly, those procedures constitute the Company's policy with regard to the nomination and consideration of Director candidates recommended by Shareholders. The Corporate Governance/ Nominating Committee will consider

candidates identified by Shareholders following the procedures set forth in the By-Laws. There have been no changes to these procedures in the last year.

The By-Laws provide that nominations of persons for election to the Board of Directors may be made at a meeting of Shareholders by any shareholder entitled to vote for the election of Directors at the meeting who complies with the notice procedures set forth in the By-Laws. Specifically, such nominations shall be made pursuant to timely notice in writing to the Secretary of the Company. To be timely, a shareholder's notice shall be delivered to, or mailed and received at, the principal offices of the Company not less than 60 days nor more than 90 days prior to the meeting; provided, however, that in the event that less than 75 days' notice or prior public disclosure of the date of the meeting is given or made to Shareholders, notice by the shareholder to be timely must be so received not later than the close of business on the 10<sup>th</sup> day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. Such shareholder's notice shall set forth in writing:

(a) as to each person whom the shareholder proposes to nominate for election or re-election as a Director:

(i) the name, age, business address and residence address of such person,

(ii) the principal occupation or employment of such person,

(iii) the class and number of shares of the Company which are beneficially owned by such person and

(iv) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors pursuant to Rule 14(a) under the Securities Exchange Act of 1934 and any other applicable laws or rules or regulations of any governmental authority or of any national securities exchange or similar body overseeing any trading market on which shares of the Company are traded, and



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(b) as to the shareholder giving the notice:

- (i) the name and record address of the shareholder and
- (ii) the class and number of shares of the Company beneficially owned by the shareholder.

The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and, if so determined, shall so declare to the meeting and the defective nomination shall be disregarded.

The Corporate Governance/Nominating Committee believes that all candidates for the Board, including candidates recommended by Shareholders, should have experience in appropriate areas and disciplines. While the Committee does not have a specific diversity policy, in identifying director nominees, the Committee considers, in addition to applicable requirements of law and of the NYSE, the diversity of the candidate's experience and qualifications, including business experience, specific expertise, strength of character, judgment, and other factors deemed appropriate in adding value to the composition of the Board. The Committee considers, and thereby assesses, the diversity of experience and qualifications of the candidate and the Board members when recommending candidates for nomination by the Board. Other than for compliance with the procedures set forth in the By-Laws, there is no difference in the manner in which the Corporate Governance/Nominating Committee evaluates nominees for director based on whether the nominee is recommended by a shareholder. At such times as may be appropriate, the Corporate Governance/Nominating Committee will lead the search for individuals qualified to become members of the Board, seeking candidates who have diversity of experience and qualifications in appropriate areas and disciplines. The Committee has authority to engage search firms to identify candidates for nomination to the Board.

### **Legal Committee**

The Legal Committee consists of Messrs. Blackford, Siegel and Buchwald, all independent members of the Board of Directors. In 2013, the Legal Committee met 10 times. The Legal Committee provides oversight and review of significant legal affairs of the Company, and it has been active in reviewing legal issues affecting the Company's business with the Company's inside and outside counsel. The organization, functions and responsibilities of the Legal Committee are described in the committee's charter, which is posted in the investor relations section of the Company's website, [www.mdcholdings.com](http://www.mdcholdings.com).

[Back to Contents](#)**EXECUTIVE OFFICERS**

Set forth below are the names and offices held by the executive officers of the Company as of the Record Date. The Board of Directors, after reviewing the functions performed by the Company's officers, has determined that, for purposes of Item 401 of SEC Regulation S-K, only these officers are deemed to be executive officers of the Company.

The executive officers of the Company hold office until their successors are duly elected and qualified or until their resignation, retirement, death or removal from office. Biographical information on Messrs. Mizel and Mandarich, who serve as Directors and executive officers of the Company, is set forth under "Election of Directors" above. Biographical information for Messrs. Stephens and Touff is set forth below.

<b>Name</b>	<b>Age</b>	<b>Offices Held as of March 21, 2014</b>
Larry A. Mizel	71	Chairman of the Board of Directors and Chief Executive Officer
David D. Mandarich	66	President, Chief Operating Officer and a Director
John M. Stephens	45	Senior Vice President, Chief Financial Officer and Principal Accounting Officer
Michael Touff	69	Senior Vice President and General Counsel

*John M. Stephens* was elected Senior Vice President, Chief Financial Officer and Principal Accounting Officer on February 13, 2012. He previously was with Standard Pacific Corp., one of the country's largest homebuilders, serving as Chief Financial Officer from February 2009 through June 2011, Senior Vice President from May 2007 through June 2011, Corporate Controller from November 1996 through February 2009, and Treasurer from May 2001 until October 2002 and from November 2009 through June 2011. Prior to Standard Pacific, Mr. Stephens was an audit manager with the international accounting firm Arthur Andersen LLP. Mr. Stephens also is an officer, director or both of many of the Company's subsidiaries.

*Michael Touff* was elected Senior Vice President and General Counsel of the Company in July 1999, having been elected previously as Vice President and General Counsel in December 1994. From August 1992 through December 1994, he was an officer in the law firm of Ireland, Stapleton, Pryor & Pascoe, P.C. Prior to August 1992, Mr. Touff was an officer in the law firm of Holmes & Starr, a Professional Corporation. Mr. Touff also is an officer, director or both of several of the Company's subsidiaries.

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## **COMPENSATION PROCESSES AND PROCEDURES**

### **Scope of Authority of Compensation Committee**

The Compensation Committee has the authority to oversee all employee compensation levels, including benefits. Its goal is to have the Company develop compensation levels that will attract, retain, reward and motivate employees, that are competitive with those prevailing in the marketplace and are consistent with shareholder interests. The Committee also administers the Company's equity and other compensation plans, as they may be amended from time to time. The Committee may delegate the day-to-day administrative duties of these plans to Company officers, employees and agents.

The primary components of the Company's executive compensation have been: a base salary, annual performance-based bonuses and equity-based, long-term incentive awards. The Compensation Committee also has discretionary authority to award other forms of executive compensation.

The Compensation Committee reviews and establishes the base salaries for the executive officers annually. The base salaries of Mr. Mizel, the Chief Executive Officer, and Mr. Mandarich, President and Chief Operating Officer, were established in accordance with their employment agreements with the Company. The base salaries for Mr. Stephens, Senior Vice President and Chief Financial Officer, and Mr. Touff, Senior Vice President and General Counsel, were established in the Committee's discretion.

Annual bonuses may be awarded to the Chief Executive officer and the President and Chief Operating Officer pursuant to the terms of the 2013 Performance-Based Plan, which was approved by the shareholders in 2013. Under the terms of that Plan, the Committee can only exercise negative discretion, and not positive discretion, regarding the amount of any awards payable under its terms. Annual bonuses for the Chief Financial Officer and General Counsel may be awarded based on each individual's achievement of Key Performance Indicators ("KPIs") established for his position.

The Compensation Committee also has discretionary authority to determine awards of stock options and/or restricted stock to the executive officers and may exercise that authority based on its subjective assessment and determination of the individual's performance, contributions to the Company and role in achieving the Company's results and objectives.

Historically, the Company's Board of Directors, and not the Compensation Committee, has exercised the authority to consider and determine Director compensation, including retainer and meeting fees. The non-employee Directors receive equity compensation pursuant to the M.D.C. Holdings, Inc. 2011 Stock Option Plan for Non-Employee Directors approved by the Shareholders in 2011 (the "2011 Director Plan"), under which each non-employee Director is

granted options to purchase 25,000 shares of Common Stock annually. The options are fully vested on the date of the grant and exercisable six months thereafter.

### **Role of Executive Officers regarding Employee and Executive Compensation**

Mr. Mizel and Mr. Mandarich, with the assistance of the Company's human resources department, made recommendations to the Compensation Committee with respect to the structure of the compensation plans and proposals for compensation levels for Company employees, including executive officers. The resources and processes used in making these recommendations involve a review of employee performance with respect to established goals, and overall Company performance subjectively compared to other public homebuilders and the Company's business plan.

The Compensation Committee took these recommendations into account, together with a variety of other inputs, in its decision making process.

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## **Role of Compensation Consultants**

The Compensation Committee has the authority to retain outside counsel, consultants and other advisors to assist it in evaluating compensation or in otherwise discharging its duties and responsibilities. In 2013, after consideration of independence factors as required by the NYSE, the Compensation Committee engaged Pearl Meyer & Partners (the “Consultant”) to advise the Committee regarding the structuring of executive compensation for 2013 and 2014 and compensation disclosures to be made in this proxy statement. The Consultant also assists the Committee in determining appropriate peers for purposes of comparing (but not benchmarking) market compensation, and provides other related services. The Consultant was similarly engaged the prior year to provide advice as to compensation and disclosures.

The Consultant has not provided any services for the Company other than the services it provided to the Compensation Committee. After considering, among other things, the absence of any business or personal relationship between the Consultant and any member of the Compensation Committee or any executive officer of the Company, the Compensation Committee has concluded the Consultant’s work does not raise any conflict of interest.

## **Executive Compensation Decision Making**

The Compensation Committee conducted a series of meetings, attended by all the Committee members, beginning in October 2013 and continuing through February 25, 2014, at which time the Committee made determinations regarding 2013 and 2014 executive officer compensation. The following table summarizes the roles of the Compensation Committee, the Consultant, and executive management in executive compensation decision making:

<b>Responsible Party</b>	<b>Roles and Responsibilities</b>
<b>Compensation Committee of the Board of Directors</b>	<ul style="list-style-type: none"><li>• Oversees the Board’s relationship with shareholders on matters pertaining to executive compensation.</li><li>• Seeks the views of the Company’s institutional shareholders concerning compensation metrics, executive compensation and performance goals.</li><li>• Retains independent counsel, consultants and other advisors to assist it in evaluating compensation or in otherwise discharging its responsibilities.</li><li>• Evaluates CEO performance in relation to the overall performance of the Company.</li></ul>

*The Committee currently is comprised of three Independent Directors and reports to the Board.*

- Has the authority to determine and approve compensation packages for our executive officers.
- Reviews and approves all programs in which our executive officers participate, including equity, retirement and other benefit plans.
- Reviews the executive compensation philosophy, compensation metrics and amounts, and the results of shareholder say-on-pay votes, before establishing executive compensation.
- Considers comparable metrics in the Company's public homebuilder peer group.
- Provides advice and opinion on the appropriateness and competitiveness of our compensation programs relative to market practice.
- Performs all functions at the direction of the Compensation Committee
- Attends Compensation Committee meetings (including executive sessions).

- Provides advice and opinions regarding good governance regarding executive compensation decision making.
- Provides market data, as requested.
- Consults on various compensation matters and recommends compensation program designs and practices.
- With the cooperation of management, works to conduct an assessment of the risks arising from our compensation programs.
- Confers with the CEO on behalf of the Compensation Committee concerning compensation levels, incentives and goals.
- Reviews performance of the other executive officers and makes recommendations to the Compensation Committee with respect to their compensation.

- Confers with the Compensation Committee concerning design and development of compensation and benefit plans for Company employees.

### **Consultant to the Compensation Committee**

*Pearl Meyer & Partners, as an independent consultant retained directly by the Compensation Committee, provides consulting advice on matters of governance and executive compensation*

### **Chairman and CEO**

*With the support of other members of the management team*

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## Peer Data

The Compensation Committee utilized peer data as a tool when it considered incentives and compensation plan design. While peer data was reviewed and considered by the Committee, it was not utilized for benchmarking purposes. Rather, the peer group information was considered for broad subjective comparisons and not as an objective metric. The homebuilder peer group companies (the “Peer Group”) referenced for these purposes consisted of: Lennar Corporation, D.R. Horton, Inc., the Ryland Group, Inc., Toll Brothers, Inc., Hovnanian Enterprises, Inc., Standard Pacific Corp., KB Home, M/I Homes Inc., NVR, Inc., Pulte Homes, Meritage Homes Corporation and Beazer Homes, USA. The Committee chose these companies because of their similarities to MDC’s core business and markets, recognizing that their structure and business strategies may significantly vary from those of our Company. Substantial differences between MDC and the Peer Group include (1) MDC senior management (excluding options) owns almost 20% of the Company’s outstanding stock, highest above the closest Peer Group member, and (2) MDC’s dividend yield of approximately 3.4% appreciably exceeds the closest Peer Group member.

The Compensation Committee appreciates that the revenue size, the market capitalization and risk profile of companies in the Peer Group may differ substantially. Nevertheless, the Committee believes that the companies in the Peer Group were appropriate for reference because they compete for the same executive talent. The Compensation Committee refers to the Peer Group not only for compensation purposes, but also for business model and risk evaluation purposes, as discussed in more detail, below.



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## COMPENSATION DISCUSSION AND ANALYSIS

### Executive Summary

The Compensation Discussion and Analysis (“CD&A”) addresses:

- Our compensation philosophy and objectives;
- The background underlying CEO, COO and other executive compensation;
- The elements of executive compensation;
- The Compensation Committee’s 2013 and 2014 executive compensation determinations; and
- Why the Compensation Committee chooses to pay each element of compensation.

### Executive Compensation Philosophy & Objectives

Our philosophy continues to utilize executive compensation to retain and reward executive leadership for purposes of creating sustainable long-term value for our shareholders. An important tool has been the use of long-term equity incentives, such as stock options and restricted stock awards, which allow our leadership team to benefit when shareholders benefit. Our consistent emphasis on long-term incentives has resulted in leadership team ownership of Company stock that is among the highest in our home building Peer Group.

The homebuilding industry is highly cyclical, and it is important that executive compensation be balanced, to take that into account. The Compensation Committee (the “Committee”) believes that our Company’s executive compensation can best be aligned with the long-term interests of the shareholders by taking all of the following factors into account:

- The tenure, experience and importance of our executive officers
- Risk management and financial stability
- Annual performance of the Company
- The long-term prospects of the Company within the homebuilding industry

The Committee believes that incentive compensation must reflect the Company's philosophy on risk management and financial stability, as well as short and long term returns on shareholder equity. The Committee recognizes that most of the companies in the Peer Group strive to operate with a higher debt to equity ratio and a larger leveraged inventory of real estate. Our Company endeavors to avoid a higher risk exposure than the Peer Group with a goal of maintaining a three to four year supply of land.

The Committee believes that fair and appropriate compensation is in the best interests of the Company and its shareholders. The Committee seeks to establish "target" annual incentive levels based on performance goals that are transparent and directly aligned with the long-term interests of shareholders. The Committee considers the impact that annual goals may have on the Company's overall risk profile and financial position, keeping in mind that the annual goals must also contribute to the long-term interests of the Company.

Based on shareholder input and the advice of its Consultant, as reflected in its determinations for 2013, the Committee also seeks to size awards to reflect the degree of accomplishment relative to the established performance goals by paying partial bonuses for partial accomplishments or by paying bonuses above target bonuses for performance that exceeds the performance goals, subject to a maximum threshold. Both target and maximum annual incentive levels are established to provide a competitive pay program within the homebuilding industry.

### **Background underlying CEO, COO and other Executive Compensation**

We believe that our ability to retain and motivate our executive officers with their exceptional skills, experience and capacity to succeed in our competitive industry has been essential to the success of our Company and a significant factor in creating long-term value for our shareholders. Our Chief Executive Officer, Larry A. Mizel, and our President and Chief Operating Officer, David D. Mandarich, the principals who have guided the Company for almost 42 years and 37 years, respectively, are senior veterans of the U.S. homebuilding industry. We believe that our continued financial improvement over the past two years, highlighted by a significant improvement in most financial measures in 2013, has prepared the Company to grow shareholder equity in the coming year. Our achievements are directly linked to the leadership provided by Messrs. Mizel and Mandarich. Their focus and emphasis on balancing risk and reward, mitigating potential losses and maintaining the financial integrity of the Company is evidenced by our two investment grade ratings (one of only two homebuilders with at least two investment grade ratings). With eight consecutive quarters of positive net income through the 2013 fourth quarter, and successful land acquisition efforts in the second half of 2012 and all of 2013, we are well positioned for growth

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in 2014 and future years. The Compensation Committee strongly believes that compensating these seasoned executives appropriately serves to encourage their continued service and is in the best interests of our shareholders.

The following are operational and financial highlights for 2013:

- Net income of \$314.4M, or \$6.34 per diluted share vs. \$62.7M, or \$1.29 per diluted share in 2012
  - Pre-tax income more than doubled overall and more than tripled for the homebuilding segment
  - Includes benefit from \$187.6M reversal of deferred tax asset allowance in 2013 second quarter
- Home sale revenues increased 41% year-over-year to \$1.63B
  - Double-digit increases for both home deliveries and average selling price
- Net operating margin for homebuilding improved by 340 basis points to 6.2%
  - Improvement in both gross margin from home sales and SG&A rate
- Pace of monthly net home orders improved 21% to 2.5
- Acquired almost 8,000 lots in 168 communities, including 128 new communities
  - Active community count is now growing, setting the stage for success in 2014 and beyond
- \$350M of 30 year unsecured bonds issued at 6.0% interest rate
- \$450M unsecured line of credit negotiated with an accordion feature to increase up to \$1.0B
- Liquidity improved by 75% to \$1.24B
- Stockholders' equity increased by 38% to \$1.21B
- Industry-leading \$1.00 per share dividend paid for 2013 (in advance in December 2012)

This CD&A discusses the compensation of our executive officers for fiscal year 2013 and the incentives established for 2014. In 2013, the executive officers were:

- Larry A. Mizel, Chairman and CEO;
- David D. Mandarich, President and Chief Operating Officer;
- John M. Stephens, Senior Vice President, Chief Financial Officer and Principal Accounting Officer; and

•Michael Touff, Senior Vice President and General Counsel

## Elements of Executive Compensation

Our executive compensation program, in which all of our executive officers participate, is comprised of three primary elements: (i) a base salary, (ii) an annual incentive bonus; and (iii) a long-term equity incentive award comprised of stock options. The following table describes each element and outlines its purpose:

Element of Executive Officer Compensation	Description	Purpose
<b>Base Salary</b>	Ongoing cash compensation based on the executive officer's role at MDC and any employment agreement. Salary levels are evaluated annually and may be increased for competitive reasons or to recognize a promotion or job change.	<ul style="list-style-type: none"> <li>• Provide a degree of financial certainty and stability.</li> <li>• Retention and attraction of executive talent.</li> </ul>
<b>Annual Incentive Award</b>	Awards for the CEO and COO are made annually under the 2013 Performance-Based Compensation Plan. KPIs are established for the CFO and General Counsel. Whether an award is earned and the amount is determined by the Compensation Committee depending upon Company performance, typically against pre-established goals.	<ul style="list-style-type: none"> <li>• Recognize competitive market conditions and reward individual performance through periodic increases.</li> <li>• Motivate executive officers to achieve key annual goals and position the Company for longer-term success.</li> </ul>
<b>Long-Term Equity Awards</b>	Awards typically are granted annually under the Company's 2011 Equity Incentive Plan. Each executive officer is eligible to receive an award at the discretion of the Compensation Committee based upon performance and long-term potential.	<ul style="list-style-type: none"> <li>• Reward executive officers for individual performance and overall Company performance during the year.</li> <li>• Provide an incentive for executive officers to achieve long-term, sustainable success for the Company and to create shareholder value.</li> <li>• Attract, motivate, reward and retain executive talent.</li> </ul>

In addition, based on their decades of service to the Company, Messrs. Mizel and Mandarich will receive medical insurance benefits, as more fully described under "Post-Retirement Medical and Pension Benefits" below. These medical benefits were first established in 1997 and last modified in 2008. Messrs. Mizel and Mandarich were also previously eligible for post-retirement pension benefits, which were terminated in 2013. The post-retirement pension

benefits accrued to the termination date will be distributed to them in October 2014. The “Post-Retirement Medical and Pension Benefits” section below discusses this in further detail.

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## **Consideration of Say on Pay Vote**

### **Overview**

The Compensation Committee considered investor feedback and the 2012 Say on Pay vote prior to making compensation decisions at the start of 2013. The 2013 advisory vote on executive compensation resulted in a majority (96%) affirmative vote at the Company's March 18, 2013 Annual Meeting of Shareholders.

### **Outreach Effort**

On behalf of the Compensation Committee, the Company undertook an outreach effort to contact major Company shareholders, prior to the finalization of compensation decisions made at the start of 2013, and again prior to the finalization of compensation decisions made at the beginning of 2014. The objective of this effort was to seek the views of Company shareholders concerning compensation metrics and compensation and gain a greater understanding of the Say on Pay voting, so that shareholder feedback could be considered for compensation decisions.

In its outreach efforts, the Company contacted unaffiliated shareholders, in an effort to discuss each investor's views on compensation and compensation metrics. The outreach efforts targeted voting decision makers, proxy departments and/or compliance departments. The Company compiled detailed feedback for the Compensation Committee regarding their discussions with shareholders. The Company's outreach effort extended to shareholders representing more than 40% of the Company's unaffiliated shareholders.

The Consultant, on behalf of the Compensation Committee, contacted ISS and Glass Lewis to solicit their views concerning executive compensation and corporate governance. The Chairman of the Compensation Committee also participated in the discussions. The Consultant reported the results of these discussions to the Committee, which were considered in advance of its executive compensation determinations made at the start of 2013 and again at the beginning of 2014.

Upon completing its evaluation, and upon conferring with its Consultant, the Compensation Committee made its determinations on compensation actions for 2013 performance and 2014 plans, as discussed in more detail below.

### **Elements of Compensation & Specific Compensation Decisions - 2013**

## **Base Salary**

The determination of base salary levels is a subjective assessment made by the Committee annually taking into consideration the following factors as a whole:

- Experience and tenure
- Base salary levels for comparable positions in the Peer Group
- Individual and Company performance
- Internal equity
- Level of responsibility
- The executive's employment agreement (if any)
- Shareholder input
- The advice of its Consultant

The Compensation Committee determined to keep the 2013 base salaries of Messrs. Mizel, Mandarich, Stephens, and Touff unchanged from their 2012 levels. The Committee believes that these base salary amounts are appropriate in light of the various factors it considered in making the specific base salary determinations. The base salaries have remained unchanged for several years.

## **2013 Annual Incentive Bonus Awards**

The shareholder approved 2013 Performance-Based Plan was designed to motivate and reward executives for their respective contributions in achieving the Company's annual financial goals. The 2013 Performance Goal for Messrs. Mizel and Mandarich was established in accordance with this shareholder approved plan and the minimum, target and maximum thresholds were included in the 2013 Proxy Statement for review by the shareholders in advance of their Say on Pay vote.

Requiring the comments of the Company shareholders, the Committee believed that it was important to closely align its annual incentive bonus (the 2013 Performance Goal under the 2013 Performance-Based Plan) with the continued growth of the Company's homebuilding earnings in 2013.

Therefore, the design of the 2013 Performance Goal contained two key Performance Objectives, as disclosed previously in the 2013 Proxy Statement:

• First, a condition precedent that the adjusted pre-tax return on beginning equity (excluding any charge for debt extinguishment) must exceed 6% in order for *any* bonus to be paid under the 2013 plan.

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Second, a range of homebuilding pre-tax income per weighted average diluted shares outstanding (excluding any charge for debt extinguishment) (“Homebuilding EPS”) thresholds were established to reward performance achieved in the homebuilding operations as follows:

- At least \$0.76 to qualify for the minimum bonus level of \$3.5 million;
- At least \$0.90 to qualify for the target bonus level of \$6.0 million; and
- At least \$1.87 to qualify for the maximum bonus level of \$10.0 million.

The 2013 Performance Goal reflected the thresholds established for Homebuilding EPS given the Company’s 2012 performance and its continued emphasis on risk management, financial stability and long-term value.

The annual incentive was achieved at the maximum amount of \$10 million. In particular:

- The Company achieved a pre-tax return on beginning equity of 15%, exceeding the required threshold of 6%, which was a condition precedent.

- The Company achieved a Homebuilding EPS of \$2.05, calculated as follows:

2013 Homebuilding pretax income	\$ 100,323,000
2013 Weighted average diluted shares outstanding	48,831,785
2013 Homebuilding EPS	\$ 2.05

The Compensation Committee was authorized, in its discretion, to reduce the incentive payout. Based on its review of the executives’ accomplishments in 2013, the Committee determined that no reduction was warranted.

Neither the General Counsel nor the Chief Financial Officer participate in the 2013 Performance-Based Plan. In the judgment of the Compensation Committee, these two positions are primarily responsible for accounting, legal and regulatory compliance and should not receive incentive compensation tied to specific year financial performance. Instead, the General Counsel and the Chief Financial Officer were entitled to an annual bonus of up to a specified percentage of base pay. For 2013, the Compensation Committee consulted with the Chief Executive Officer and the President and Chief Operating Officer, and devised a list of KPIs for each position.

**Chief Financial Officer**

- Shareholder relations management and oversight

- Timely and accurate handling of financial regulatory filings
- Oversight of accounting, finance and treasury functions, including capital markets and bank financing transactions, if applicable
- Successful completion of special projects

**General Counsel**

- Litigation management
- Regulatory compliance
- Successful completion of special projects
- Oversight of risk management

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For 2013, the KPIs were weighted equally. The Compensation Committee determined the extent to which each of the KPIs were met and allocated a percentage of achievement to each, the total of which constituted the annual bonuses awarded to Mr. Stephens and to Mr. Touff. The chart below shows the bonus payable at target and maximum levels, as well as the final bonus paid based on the Compensation Committee's assessment of performance for each metric:

KPI	Target Bonus		Maximum Bonus		Proposed Bonus Based on Performance	
	(Total = 100% of Base)		(Total = 200% of Base)		Against KPIs	
	%	\$	%	\$	%	\$
<i>Shareholder relations management and oversight</i>	25%	\$ 106,250	50%	\$ 212,500	25%	\$ 106,250
<i>Timely and accurate handling of financial regulatory filings</i>	25%	\$ 106,250	50%	\$ 212,500	25%	\$ 106,250
<i>Oversight of accounting, finance and treasury functions, including capital markets and bank financing transactions, if applicable</i>	25%	\$ 106,250	50%	\$ 212,500	25%	\$ 106,250
<i>Successful completion of special projects</i>	25%	\$ 106,250	50%	\$ 212,500	25%	\$ 106,250
<b>TOTAL</b>	<b>100%</b>	<b>\$ 425,000</b>	<b>200%</b>	<b>\$ 850,000</b>	<b>100%</b>	<b>\$ 425,000</b>
<i>Litigation management</i>	25%	\$ 88,320	50%	\$ 176,640	31.8%	\$ 112,500
<i>Regulatory compliance</i>	25%	\$ 88,320	50%	\$ 176,640	31.8%	\$ 112,500
<i>Successful completion of special projects</i>	25%	\$ 88,320	50%	\$ 176,640	31.8%	\$ 112,500
<i>Oversight of risk management</i>	25%	\$ 88,320	50%	\$ 176,640	31.8%	\$ 112,500
<b>TOTAL</b>	<b>100%</b>	<b>\$ 353,279</b>	<b>200%</b>	<b>\$ 706,558</b>	<b>127.4%</b>	<b>\$ 450,000</b>

For Mr. Stephens and Mr. Touff, \$100,000 and \$50,000 respectively, of the total actual bonus was paid in restricted stock granted and valued as of the date of the Committee's action, vesting equally over three years, starting with the first anniversary of the award date. The restricted stock was awarded under our 2011 Equity Incentive Plan.

**2013 Long-Term Equity Incentive Compensation**

The Compensation Committee is committed to granting long-term equity awards that are performance vested. In 2012, the CEO and COO received long-term incentive compensation only in the form of performance-based stock options. At the same time, the Committee determined that no additional option grants would be made to them in 2013 or 2014. No equity awards have been granted to the CEO and/or the COO in either 2013 and none are contemplated for 2014.

On February 6, 2014, the Compensation Committee awarded each of Messrs. Stephens and Touff a stock option award under the 2011 Equity Incentive Plan covering 25,000 shares. Each option vests (become exercisable) as to 33-1/3% of the shares on each of the third, fourth and fifth anniversary dates of the grant if the executive is employed on those dates.

### **Post-Retirement Medical and Pension Benefits**

For the past 16 years, the CEO and COO were entitled to a non-qualified retirement benefit and also health benefits under their employment agreements for the duration of each executive's life (described in more detail below under "Employment Agreements"). The non-qualified retirement benefits rewarded the CEO for his 42 years of service to the Company and the COO for his 37 years of service with the Company. These benefits were first awarded to the CEO and COO as a part of their employment agreements in 1997.

In response to concerns expressed by significant institutional investors regarding the non-qualified retirement benefits, and in accordance with the recommendation of an independent compensation consultant to the Company's Compensation Committee, on October 18, 2013 the Company reached agreements (collectively, the "Second Amendments") with the CEO and COO for the early termination, as of June 30, 2013, of the non-qualified retirement benefits contained in their respective Employment Agreements. Pursuant to the

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Second Amendments, the Company will pay each of Messrs. Mizel and Mandarich a deferred lump sum in the amount of \$14.8 million and \$16.0 million, respectively, which was the benefit amount accrued by the Company as of June 30, 2013, in full satisfaction of their past, present and future non-qualified retirement benefit. The payout will occur on October 20, 2014. The Company's termination of the non-qualified retirement benefit is irrevocable. As a result of the termination, the Company ceased recognizing expense related to the retirement benefits in 2013.

## **Other Compensation**

Other compensation received by our executive officers for 2013 consists of 401(k) employer contributions, travel expenses incurred in support of not-for-profit organizations (as approved by the Board of Directors) and cell phone allowances.

The Board of Directors of the Company has determined that it is in the best interests of the Company for its CEO and its COO to take advantage of the Company's aircraft for non-Company business purposes, when the aircraft is not being employed in the ordinary course of Company business. The CEO and the COO reimburse the Company for their non-business use of the aircraft.

The objective of these benefits is to provide amenities to the executive officers that allow them to more efficiently utilize their time and to support them in effectively contributing to the success of the Company.

## **Elements of Compensation & Specific Compensation Decisions - 2014**

Prior to finalizing executive compensation decisions relating to 2014, the Committee took the following actions:

- Reviewed the executive compensation philosophy, compensation metrics and amounts, and the results of shareholder say-on-pay votes in prior years.
- Sought the views of the top 13 non-affiliated shareholders of the Company concerning compensation metrics and compensation, including views regarding the Company's performance goals.
- Reviewed comparative metrics for the Company and twelve of its publically traded homebuilding peers.

The Committee made the following determinations regarding executive compensation for 2014.

## 2014 Base Salary

The executive officers did not receive a base salary increase for 2014.

## 2014 Annual Incentive Bonus

Recognizing the comments of the Company's shareholders, the Committee believed that it was important to closely align its annual incentive bonus (the 2014 Performance Goal under the 2013 Performance-Based Plan) with the continued growth of the Company's earnings in 2014.

Therefore, the design of the 2014 Performance Goal contains two key Performance Objectives:

First, there is a condition precedent for payment under the 2014 Performance Goal that the adjusted pre-tax return on beginning equity (excluding any charge for debt extinguishment) must exceed 6.5 percent.

Second, earnings per share (pre-tax income divided by weighted average fully diluted shares outstanding for 2014, excluding any charges or expenses incurred in the early extinguishment of debt) ("Pretax EPS") must be achieved, using a range of fourteen possible thresholds (with corresponding bonus levels ranging from zero to a maximum of \$10.0 million). The CEO and COO must achieve Pretax EPS of:

At least \$1.61 to qualify for the minimum bonus level of \$2.0 million;

At least \$2.41 to qualify for the target bonus level of \$6.0 million; and

At least \$4.01 to qualify for the maximum bonus level of \$10.0 million.

These thresholds were established based on the Compensation Committee's review of internal Company forecasts as well as general and industry specific economic conditions, keeping in mind the Company's emphasis on risk management, financial stability, and generating long-term shareholder value. The maximum bonus of \$10.0 million for 2014 is equal to the bonus earned by the executives for 2013 and requires the executives to increase Pre-tax EPS by more than 50% for 2014. If Pre-tax EPS in 2014 is less than the \$4.01 maximum threshold, the bonus for the executives will decrease as compared to the 2013 bonuses. An increase in the bonus paid to the CEO and COO for 2014 is not possible under the 2014 Performance Goal.

For 2014, the Compensation Committee consulted with the CEO and the COO, and determined that the Key Performance Indicators (“KPIs”) for the Chief Financial Officer and the General Counsel for 2014 will be the same as the KPIs used for 2013. Those KPIs have been communicated to the General Counsel and the Chief Financial Officer. After the close of the year, the Compensation Committee will receive feedback from the CEO and COO regarding the respective performance

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of each executive regarding his KPIs. The Compensation Committee will then make an independent assessment of the qualitative performance of the General Counsel and the Chief Financial Officer relative to the KPIs, and determine the amount of bonuses, if any, to be awarded.

## **2014 Long-Term Equity Incentive Compensation**

The Compensation Committee is committed to granting long-term equity awards that are performance vested. As discussed above, in 2012, the CEO and COO received long-term incentive compensation in the form of performance-based stock options with a three year time limit set for the achievement of the established performance vesting goals. The term of the grant was for three years in lieu of any further equity grants until 2015. Accordingly, no additional option grants have been made to these executives in 2013 or 2014. At the discretion of the Committee, both the CFO and General Counsel may receive part of their annual bonuses in the form of equity awards. Additionally, both executives are eligible to receive stock options for 2014 performance. The amount, exercise price and vesting schedule for any equity components of compensation for our CFO and General Counsel for 2014 performance will be determined at or shortly after the end of the year.

## **EMPLOYMENT AGREEMENTS**

### **Messrs. Mizel and Mandarich**

The Company entered into employment agreements with Mr. Mizel and Mr. Mandarich, which have been amended over time and most recently as of October 18, 2013. The agreements provide for the executives' continued employment with the Company: Mr. Mizel as Chairman and Chief Executive Officer, and Mr. Mandarich as President and Chief Operating Officer. The agreements specify a minimum base salary, incentive compensation and medical benefits during the executive's employment as well as medical benefits upon the executive's retirement, disability or termination.

On March 8, 2012, the employment agreements were amended to provide a double trigger on the non-equity vesting portions of the agreements' change-in-control provision and to increase the percentage threshold in the change-in-control definition from 20% to 50%.

Previously, the employment agreements provided for the payment of retirement benefits to each of Messrs. Mizel and Mandarich upon the executive's retirement, disability or termination. In response to concerns expressed by significant institutional investors, and in accordance with the recommendation of an independent compensation consultant to the Company's Compensation Committee, on October 18, 2013, the Company entered into amendments to the employment agreements with Messrs. Mizel and Mandarich that terminated the retirement benefits. Pursuant to the



amendments, the Company will pay to each of Mr. Mizel and Mr. Mandarich a deferred lump sum in the amount of \$14,803,349 and \$15,992,254 respectively (the amounts accrued on the books of the Company through June 30, 2013 with respect to the Company's estimated liability to pay the benefits) in full satisfaction of their past, present and future retirement benefits. These payments will be made to the executives on October 20, 2014. As a result, the Company no longer incurs ongoing retirement benefit accruals.

Material terms of the employment agreements are summarized below.

**Employment Term:** The agreements automatically extend for two-year terms unless (1) the Company or the executive elects to terminate by six months written notice, or (2) the executive is terminated earlier. Neither party has given notice of termination.

**Base Salaries:** Mr. Mizel's base salary may not be less than \$1,000,000 per year. Mr. Mandarich's base salary may not be less than \$830,000 per year. The base salary for the executive may only be reduced below his prior year's base salary with the consent of the executive and the Company.

**Incentive Compensation:** The Company pays the executive annual incentive compensation pursuant to incentive compensation plans, which are performance-based. Details of the incentive plans are described more fully in "Compensation Processes and Procedures" and "Compensation Discussion and Analysis – Elements of Compensation" above.

**Retirement Benefits:** These have now been terminated, as noted above.

**Medical Insurance Benefits:** The Company provides medical insurance benefits to Messrs. Mizel and Mandarich for the duration of their lives. This applies to each of them while he is employed and for the rest of his life after employment. The medical insurance coverage and benefits are at least comparable to those provided to the executive at the time the agreement was signed. The medical insurance benefits also provide comparable coverage for the executive's spouse for the duration of the executive's life and, if she survives the executive, for an additional sixty months after his death.

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With the approval of Messrs. Mizel and Mandarich, the supplemental health insurance coverage previously provided to them was terminated at the end of 2010.

***Long-Term Disability Benefits:*** The Company will provide the executive with long-term disability benefits. Under the benefits, the annual after-tax amount received by the executive would equal the after-tax amount of his base salary for the year in which he becomes disabled. This long-term disability benefit would be paid monthly until the earlier of the end of the executive's disability, prior to his becoming totally disabled. If the executive dies or becomes totally disabled during his employment, he or his estate will be entitled to receive all benefits earned under his performance-based plan and equity plans.

***Vacation:*** The executive is entitled to receive six weeks of vacation each year without carryover from year to year.

***Termination for Cause:*** The executive may be terminated for cause, as defined in their employment agreements. If either is terminated for cause, he will only be entitled to his base salary earned through the date of termination and will not be entitled to any other amounts under his employment agreement.

***Termination Without Cause:*** If the executive is terminated without cause he will be entitled to receive:

• an amount equal to his aggregate base salary during the three years prior to his termination; and

• an amount equal to 300%, for Mr. Mizel, and 200%, for Mr. Mandarich, of the annual incentive compensation paid for the year prior to termination.

In addition, the executive's options and other rights under the equity plans would vest immediately and the executive, his spouse and his dependents would be entitled to continued medical benefits. Under the employment agreements, termination without cause includes the Company's election not to extend the term of the employment agreement and the Company's termination of the Performance-Based Plan.

***Change in Control Provisions:*** If a change in control of the Company occurs, all of the options, dividend equivalents and other rights granted to Messrs. Mizel and Mandarich under the equity plans and other Company plans would accelerate and become exercisable immediately before the occurrence of the transaction that caused the change in control. If the transaction is not completed, the options would remain subject to the restrictions to which they were originally subject.

If a change in control occurs, followed within two years by a material change, the executive can terminate his employment (if he has not already been terminated) within thirty days of the material change. If the executive terminates his employment due to a change in control, then:

he will receive an amount equal to his aggregate base salary during the three years prior to his termination;

he will receive an amount equal to 300%, for Mr. Mizel, and 200%, for Mr. Mandarich, of the annual incentive compensation paid for the year prior to termination;

he will be entitled to the accelerated vesting of options and rights; and

if the change in control involved a two-tier tender offer, at the executive's election the Company will either: (1) pay the executive the difference between the exercise price of the otherwise unvested options and the price offered in the first tier; or (2) adjust the option terms to provide the executive with an equivalent value.

***Excess Parachute Payments:*** Certain payments that Messrs. Mizel and Mandarich may receive could be subject to an excise tax as an "excess parachute payment" under the Internal Revenue Code. This could occur following a change in control, a material change, or through other payments made to the executives. In their employment agreements, Messrs. Mizel and Mandarich have agreed to be paid those amounts, if any, in annual installments and over the shortest period of time in which they may be paid and not be treated as "excess parachute payments."

#### ***Change in Control and Material Change Defined***

A "change in control," which is defined more fully in the employment agreements, occurs when:

a report on Schedule 13D is filed with the SEC that discloses that any person is the beneficial owner of fifty percent (50%) or more of the combined voting power of the then-outstanding securities of the Company. However, it will not be a change in control if that person is the Company or one of its subsidiaries, an employee benefit plan sponsored by the Company, or any Director as of the date of the employment agreements or his or her affiliate;

any person purchases securities through a tender offer or exchange offer if after the offer is completed the person in question is the beneficial owner of fifty percent (50%) or more of the combined voting power of the then-outstanding securities of the Company. However, it will not be a change in control if that person is the Company or one of its subsidiaries, an employee benefit plan sponsored by the Company, or any Director as of the date of the employment agreements or his or her affiliate;

•

the Company's Shareholders approve a consolidation or merger after which the Company would not be the continuing or surviving corporation;

the Company's Shareholders approve a consolidation or merger in which shares of Company's Common Stock would be converted into cash, securities or other property;

the Shareholders approve any sale, lease, exchange or other transfer of all or substantially all the assets of the Company; or

the majority of the Board of Directors ceases to be composed of Directors who were on the Board at the beginning of any twelve-month period. However, it will not be a change in control if the election or nomination of each new director was approved by the vote of two-thirds of the Directors in office who were directors at the beginning of that twelve month period.

A "material change," which is defined more fully in the employment agreements, occurs when:

the Company makes certain adverse changes in the executive's reporting relationship, titles, functions or duties;

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the Company (without the executive's consent) terminates the Performance-Based Plan or amends it to provide for reduced payments to the executive;

the Company assigns or reassigns the executive, without his written permission, to another place of employment 50 miles or more from his residence;

the Company reduces the executive's base salary, annual incentive compensation, retirement benefits, long-term incentive compensation, or the manner in which the compensation is determined, or breaches the employment agreement; or

a purchaser of all or substantially all of the Company's assets or any successor or assignee of the Company fails to assume the employment agreement.

See "Potential Payments Upon Termination or Change in Control" below for additional information.

**Certain Other Change in Control Agreements**

Mr. Touff entered into a change in control agreement with the Company effective July 30, 2008. The agreement will terminate on the earlier of termination of the Mr. Touff's employment or the end of the current one-year term of the agreement. However, unless either party elects by notice in writing delivered to the other at least 90 days prior to December 31 of the current term, the term of the agreement will be renewed automatically for successive one-year terms. In addition, if the agreement has not been terminated prior to a change in control (as defined below), upon a change in control, the term of the agreement will extend automatically following such Change in Control for two years.

The definition of change in control is generally the same as the definition in the description of the employment agreements above.

For purposes of the agreement, a change in control event occurs if a change in control is followed by a material change within two years. A material change is defined in the agreements to occur if:

Mr. Touff's employment is terminated without cause (as defined in the agreements);

the Company makes certain adverse changes in Mr. Touff's reporting relationship, titles, functions or duties;

the Company assigns or reassigns Mr. Touff, without his written permission, to another place of employment more than thirty miles from his residence;

the Company reduces Mr. Touff's base salary, annual or long-term incentive compensation, or the manner in which the compensation is determined unless the reduction applies to other officers of the Company; or

a purchaser of all or substantially all of the Company's assets or any successor or assignee of the Company fails to assume the agreement.

Pursuant to the agreement, if a change in control event occurs, Mr. Touff may elect within 90 days after the change in control event to terminate his employment, if not previously terminated by the Company, and to receive a change in control payment. The change in control payment equals two times the sum of: (i) Mr. Touff's annual base salary in effect immediately prior to the change in control event, plus (ii) the amount of Mr. Touff's last regular annual bonus, provided that the amount of the annual bonus shall not exceed 50% of the annual base salary in effect immediately prior to the change in control event.

If a change in control event occurs, Mr. Touff also would be entitled to continue to participate in the Company's employee benefit plans, policies and arrangements that provide insurance and medical benefits on the same basis as provided prior to the change in control event for a period of twelve months after the date of termination of his employment.

If a change in control as defined above occurs, all options, dividend equivalents and other rights granted to Mr. Touff under any Company equity incentive plan will be accelerated and become exercisable immediately prior to the closing of the change in control. If the change in control is not concluded, the election to exercise such options and other rights shall be of no effect and the options shall remain subject to their original restrictions.

Any amounts payable pursuant to the change in control agreement are in addition to any payments otherwise payable to Mr. Touff pursuant to any agreement, plan or policy of the Company. Certain payments that Mr. Touff may receive could be subject to an excise tax as an "excess parachute payment" under the Internal Revenue Code. This could occur following a change in control or a change in control event, either alone or together with other payments made to Mr. Touff. In the agreement, Mr. Touff has agreed to be paid those amounts, if any, in annual installments and over the shortest period of time in which they may be paid and not be treated as "excess parachute payments."

Mr. Stephens has also entered into a change in control agreement with the Company effective February 1, 2012, which is similar to Mr. Touff's except that the change in control payment would equal the sum of his annual base salary and his target annual bonus. Mr. Stephens' agreement also provides that, other than in the event of his death, if the Company terminates his employment other than for cause or disability (as defined in the agreement) under circumstances where he would not be entitled to the change in control payment described above, then he is entitled to receive an amount equal to his annual base salary.

See “Potential Payments Upon Termination or Change in Control” below for additional information.

The Compensation Committee believes that the potential payments in these limited change in control circumstances fit well within the Company’s overall compensation philosophy. The termination and change in control payments are calculated based on the base salaries and the annual bonuses paid to the executives. The Committee believes that the long-

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term interests of our Shareholders are aligned with the executives in that their compensation is, in turn, aligned with the success of the Company. The potential change of control compensation varies with the compensation previously paid to the executive, affords stability to the Company's leadership and is consistent with the philosophy of the Committee to provide compensation that assures retention, incentive and reward to the executive team.

## COMPENSATION COMMITTEE REPORT

*The following Report of the Compensation Committee shall not be deemed to be "filed" with the SEC or to be subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended. The report shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except that it will be deemed "furnished" in the Company's Annual Report on Form 10-K for 2013, but shall not be deemed incorporated by reference into any filing as a result of being furnished in the Annual Report.*

The Compensation Committee hereby confirms that it has reviewed and discussed the Compensation Discussion and Analysis with management and, based on the review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

## COMPENSATION COMMITTEE

Michael A. Berman, *Chairman*  
Raymond T. Baker  
Herbert T. Buchwald



[Back to Contents](#)**2013 SUMMARY COMPENSATION TABLE**

For the fiscal years ended December 31, 2013, 2012 and 2011, the following table summarizes the compensation of the Company's named executive officers.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) <sup>1,2</sup>	Option Awards (\$) <sup>2</sup>	Non-Equity Incentive Plan Compensation (\$) <sup>3</sup>	Change in Pension Value and Nonqualified Deferred Compensation	All Other Compensation (\$)	Total (\$)
							Earnings (\$) <sup>4</sup>		
Larry A. Mizel, Chairman and CEO	2013	\$1,000,000	N/A	N/A	N/A	\$10,000,000	\$930,281	\$138,542	\$12,068,823
	2012	\$1,000,000	N/A	N/A	\$1,855,000	\$3,500,000	\$1,847,550	\$462,157	\$8,664,707
	2011	\$1,000,000	N/A	\$1,908,000	N/A	N/A	\$1,442,518	\$327,366	\$4,677,884
David D. Mandarich, President and Chief Operating Officer	2013	\$830,000	N/A	N/A	N/A	\$10,000,000	\$1,390,193	\$5,460	\$12,225,653
	2012	\$830,000	N/A	N/A	\$1,855,000	\$3,500,000	\$2,491,450	\$342,860	\$9,019,310
	2011	\$830,000	N/A	\$1,908,000	N/A	N/A	\$1,738,611	\$224,342	\$4,700,953
John M. Stephens, Senior Vice President, Chief Financial Officer and Principal Financial Officer	2013	\$425,000	\$325,000	\$99,971	\$360,010	N/A	N/A	\$3,925	\$1,213,906
	2012	\$389,583	\$325,000	\$204,100	\$426,585	N/A	N/A	\$42,468	\$1,387,736
Michael Touff, Senior Vice President and General Counsel	2013	\$353,279	\$400,000	\$50,000	\$360,010	N/A	N/A	\$5,820	\$1,169,109
	2012	\$353,279	\$350,000	\$37,485	\$202,750	N/A	N/A	\$13,528	\$957,042
	2011	\$353,279	\$110,000	N/A	N/A	N/A	N/A	\$13,520	\$476,799

*The amounts shown in the "Stock Awards" column for Messrs. Mizel and Mandarich were granted as part of the 1payout under the shareholder approved performance-based plan in effect at that time, and they do not represent a standalone award.*

*The amounts shown in the “Stock Awards” column and the “Option Awards” column are based on the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. For Messrs. Mizel and Mandarich in 2012, the option awards were performance based, and therefore the value shown above is the aggregate grant date fair value of the awards multiplied by the probable outcome of the performance conditions as of the grant date. Assuming achievement of the highest level of performance for the options granted in 2012, the grant date fair value of the performance-based equity awards for each executive was \$3,710,000. For a description of the assumptions used in valuing the awards, please see Note 19 (Stock Based Compensation) to the Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012. Please see the “Grants of Plan-Based Awards” table below for more information about the awards granted in 2013. No option awards were granted in 2013 or 2011 to the CEO or the COO.*

*These non-equity incentive plan compensation amounts were paid in cash in accordance with the terms of the 3 shareholder approved Performance-Based Plan, as in effect for the year indicated, as compensation for that year’s performance. The amounts were paid in the subsequent year. No amounts were paid for 2011.*

*This reflects the aggregate change for the year noted in the present value of accumulated Retirement Benefits and Medical Insurance Benefits provided for under Mr. Mizel’s and Mr. Mandarich’s respective employment agreements. These amounts do not represent realized compensation; rather, they represent accounting accruals related to the benefits required under Generally Accepted Accounting Principles (GAAP). As noted in the Post-Retirement Medical and Pension Benefits section above, the Company reached agreements on October 18, 2013, with the CEO and COO 4 for the early termination, effective as of June 30, 2013, of the non-qualified retirement benefits contained in their respective Employment Agreements. Pursuant to these agreements, the Company will pay each of Messrs. Mizel and Mandarich a deferred lump sum in the amount of \$14.8 million and \$16.0 million, respectively (the amounts accrued on the books of the Company as of June 30, 2013 with respect to the Company’s estimated liability to pay Retirement Benefits), in full satisfaction of their past, present and future non-qualified retirement benefit. For 2013, the amount reflects the increase in the amount accrued through June 30. See Pension Benefits At December 31, 2013 table below.*

[Back to Contents](#)**All Other Compensation**

The table below provides a breakdown of all other compensation for 2013 for the named executive officers:

Name	Non-Business Use of Aircraft	Dividends on Restricted Stock	401(k) Match <sup>4</sup>	Other <sup>3</sup>	Total
Larry A. Mizel	\$ — <sup>1</sup>	—	\$ 5,100	\$ 133,442	\$ 138,542
David D. Mandarich	— <sup>2</sup>	—	\$ 5,100	\$ 360	\$ 5,460
John M. Stephens	—	—	\$ 3,205	\$ 720	\$ 3,925
Michael Touff	—	—	\$ 5,100	\$ 720	\$ 5,820

<sup>1</sup> The incremental costs of non-business use of the Company's aircraft are calculated as the total variable operating costs directly associated with non-business trips, these costs include fuel, pilot travel related costs, catering, landing fees, flight communication, trip-related maintenance. The total of these costs were \$357,522, offset in full by reimbursements made by Mr. Mizel to the Company.

<sup>2</sup> The incremental costs of non-business use of the Company's aircraft are calculated as the total variable operating costs directly associated with non-business trips, these costs include fuel, pilot travel related costs, catering, landing fees, flight communication, trip-related maintenance. The total of these costs were \$19,896, offset in full by reimbursements made by Mr. Mandarich to the Company.

<sup>3</sup> For Mr. Mizel, the amount shown for "Other" includes \$132,722 of travel expenses incurred by the Company in support of Mr. Mizel's service to not-for-profit organizations as approved by the Company's Board. The remainder of the amount shown for Mr. Mizel and all of the amounts shown for the other NEOs represent cell phone allowances.

<sup>4</sup> 401(k) match represents amounts paid in 2014 based on 2013 401(k) deferrals.

**SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS**

The following table provides information, as of December 31, 2013, with respect to the Company's existing equity compensation plans.

(a)	(b)	(c)
Shares to be issued	Weighted-average	Number of shares remaining available for future issuance under equity compensation plans
upon exercise of	exercise price of	
outstanding options,	outstanding options,	

Plan category	warrants and rights	warrants and rights	(excluding shares reflected in column(a))
Equity compensation plans approved by shareholders	5,282,366	\$ 40.83	1,763,856
Equity compensation plans not approved by shareholders	—	—	—
<b>TOTAL</b>	<b>5,282,366</b>	<b>\$ 40.83</b>	<b>1,763,856</b>

### GRANTS OF PLAN-BASED AWARDS IN 2013

The following table sets forth certain information with respect to awards granted during 2013 to our named executive officers. All equity awards were made under the 2011 Equity Incentive Plan.

Name	Grant Date	Estimated Future Payouts Under Equity Incentive Plan Awards Target (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Award (\$)
Michael Touff	02/01/2013	25,000	<sup>1</sup> \$ 39.75	\$ 360,010
Michael Touff	02/01/2013	2,515	<sup>2</sup> N/A	\$ 99,971
John M. Stephens	02/01/2013	25,000	<sup>1</sup> \$ 39.75	\$ 360,010
John M. Stephens	02/01/2013	2,515	<sup>2</sup> N/A	\$ 99,971

*The options granted will become exercisable as to 33-1/3% of the shares on each of the third, fourth and fifth anniversary dates of the grant. The options granted were part of the applicable executive's 2013 compensation package.*

*The restricted stock awards will vest equally over three years, starting with the first anniversary of the grant date.*

*<sup>2</sup>The restricted stock awards granted were part of the applicable executive's 2012 compensation package. Dividends are paid on the restricted stock.*

[Back to Contents](#)**OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2013**

The following table sets forth information with respect to all unexercised option and unvested restricted stock awards to our named executive officers that were outstanding as of December 31, 2013. Options will become exercisable as to unvested shares and restricted stock will vest (restrictions will lapse) if the named executive officer remains employed on the vesting date. The share amounts and option exercise prices in this table have been adjusted, as necessary, to reflect increases resulting from the stock split and stock dividends declared by the Company in prior years.

Name	Option Awards				Stock Awards	
	Number of Securities	Number of Securities	Option	Option	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested
	Underlying	Underlying	Exercise Price	Expiration Date		
	Unexercised Options (#)	Unexercised Options (#)	(\$)			
Larry A. Mizel	78,000	—	62.14	11/22/2014	—	—
	78,000	—	65.10	11/22/2014	—	—
	78,000	—	68.06	11/22/2014	—	—
	90,000	—	61.98	12/30/2015	—	—
	90,000	—	68.18	12/30/2015	—	—
	90,000	—	57.05	12/29/2016	—	—
	90,000	—	62.76	12/29/2016	—	—
	90,000	—	38.01	12/20/2017	—	—
	90,000	—	41.81	12/20/2017	—	—
	90,000	—	29.45	12/30/2018	—	—
	90,000	—	32.40	12/30/2018	—	—
	60,000	30,000	1 31.04	12/31/2019	—	—
	60,000	30,000	1 34.14	12/31/2019	—	—
	30,000	60,000	2 28.86	12/30/2020	—	—
	30,000	60,000	2 31.75	12/30/2020	—	—
	500,000	—	24.50	03/08/2022	—	—
	—	—	—	—	20,000 <sup>3</sup>	735,200
	—	—	—	—	40,000 <sup>4</sup>	1,470,400
	—	—	—	—	60,000 <sup>5</sup>	2,205,600
David D. Mandarich	78,000	—	62.14	11/22/2014	—	—
	78,000	—	65.10	11/22/2014	—	—
	78,000	—	68.06	11/22/2014	—	—
	90,000	—	61.98	12/30/2015	—	—
	90,000	—	68.18	12/30/2015	—	—

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90,000	—		57.05	12/29/2016	—	—
90,000	—		62.76	12/29/2016	—	—
90,000	—		38.01	12/20/2017	—	—
90,000	—		41.81	12/20/2017	—	—
90,000	—		29.45	12/30/2018	—	—
90,000	—		32.40	12/30/2018	—	—
60,000	30,000	1	31.04	12/31/2019	—	—
60,000	30,000	1	34.14	12/31/2019	—	—
30,000	60,000	2	28.86	12/30/2020	—	—
30,000	60,000	2	31.75	12/30/2020	—	—
500,000	—		24.50	03/08/2022	—	—
—	—		—	—	20,000 <sup>3</sup>	735,200
—	—		—	—	40,000 <sup>4</sup>	1,470,400
—	—		—	—	60,000 <sup>5</sup>	2,205,600

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Name	Option Awards				Stock Awards	
	Number of Securities	Number of Securities	Option	Expiration	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested
	Underlying	Underlying	Exercise Price	Option	Have Not Vested	That Have Not Vested
	Unexercised	Unexercised	Exercise Price	Option	Have Not Vested	That Have Not Vested
	Options (#)	Options (#)	Price	Expiration	Vested	Not Vested
	Exercisable	Unexercisable	(\$)	Date	(#)	(\$)
John M. Stephens	—	75,000	<sup>6</sup> 20.41	02/01/2022	—	—
	—	25,000	<sup>7</sup> 39.75	02/01/2023	—	—
	—	—	—	—	7,500 <sup>8</sup>	275,700
	—	—	—	—	2,515 <sup>12</sup>	99,971
Michael Touff	39,000	—	59.18	11/22/2014	—	—
	30,000	—	61.98	12/30/2015	—	—
	30,000	—	57.05	12/29/2016	—	—
	30,000	—	38.01	12/20/2017	—	—
	30,000	—	29.45	12/30/2018	—	—
	20,000	10,000	<sup>1</sup> 31.04	12/31/2019	—	—
	8,334	16,666	<sup>2</sup> 28.86	12/30/2020	—	—
	—	25,000	<sup>9</sup> 24.50	03/08/2022	—	—
	—	25,000	<sup>7</sup> 39.75	02/01/2023	—	—
	—	—	—	—	650 <sup>10</sup>	23,894
—	—	—	—	1,148 <sup>11</sup>	42,182	
—	—	—	—	2,515 <sup>12</sup>	99,971	

<sup>1</sup> This option vests as to the remaining shares on December 30, 2014.

<sup>2</sup> This option vests as to 50% of the shares covered thereby on each of December 31, 2014 and 2015.

<sup>3</sup> The restrictions on these shares lapse on February 5, 2014.

<sup>4</sup> The restrictions on these shares lapse as to 50% of the shares on each of February 4, 2014 and 2015.

<sup>5</sup> The restrictions on these shares lapse as to 33-1/3% of the shares on each of February 9, 2014, 2015 and 2016.

<sup>6</sup> This option vests as to 33-1/3% of the shares covered thereby on each of February 1, 2015, 2016 and 2017.

<sup>7</sup> This option vests as to 33-1/3% of the shares covered thereby on each of February 1, 2016, 2017 and 2018.

<sup>8</sup> The restrictions on these shares lapse as to 33-1/3% of the shares on each of February 1, 2014, 2015 and 2016.

<sup>9</sup> This option vests as to 33-1/3% of the shares covered thereby on each of March 8, 2015, 2016 and 2017.

<sup>10</sup> The restrictions on these shares lapse on December 30, 2014.

<sup>11</sup> The restrictions on these shares lapse as to 33-1/3% of the shares on each of March 8, 2014, 2015 and 2016.

<sup>12</sup> The restrictions on these shares lapse as to 33-1/3% of the shares on each of February 1, 2014, 2015, and 2016.

[Back to Contents](#)**OPTION EXERCISES AND STOCK VESTED IN 2013**

The following table provides additional information about value realized by the named executive officers on option award exercises and restricted stock award vestings during the year ended December 31, 2013.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Larry A. Mizel	—	—	40,000	\$1,549,400
David D. Mandarich	—	—	40,000	\$1,549,400
Michael Touff	—	—	1,837	\$62,007
John M. Stephens	—	—	2,500	\$99,375

**PENSION BENEFITS AT DECEMBER 31, 2013**

The following table shows, as of December 31, 2013, the present value of accumulated Retirement Benefits and Medical Insurance Benefits under the employment agreements of Mr. Mizel and Mr. Mandarich. The Retirement Benefits (but not the Medical Insurance Benefits) have been terminated as of June 30, 2013.

Name	Plan Name	Number of Years Credited	Present Value of Accumulated Retirement Benefits (\$)	Present Value of Accumulated	
				Medical Insurance Benefits (\$)	Payments During Last Fiscal Year (\$)
Larry A. Mizel	Employment Agreement	N/A	\$ 14,803,349 <sup>1</sup>	\$ 273,308	N/A
David D. Mandarich	Employment Agreement	N/A	\$ 15,992,254 <sup>1</sup>	\$ 267,896	N/A
Michael Touff	N/A	N/A	N/A	N/A	N/A
John M. Stephens	N/A	N/A	N/A	N/A	N/A

*<sup>1</sup> Represents the estimated present value of accumulated pension benefits as of June 30, 2013 as a result of the agreements reached between the Company and the CEO and COO for the early termination of their non-qualified retirement benefits contained in their respective Employment Agreements. See the 2013 Summary Compensation*



*Table above for further details.*

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The following table shows potential payments to our named executive officers under existing contracts for various scenarios involving a change in control or termination of employment, assuming a December 31, 2013 termination date. Please see the narrative above under “Employment Agreements” and “Certain Other Change in Control Agreements” for a description of payments contemplated by these agreements.

Name	Benefit	Termination w/o Cause or Material Change	Change in Control	After Change in Control – Material Change or w/o Cause <sup>1</sup>	Voluntary Termination	Death	Disability
Larry A. Mizel	Severance Pay	\$3,000,000 <sup>2</sup>		\$3,000,000 <sup>2</sup>			
	Ann. Incentive Comp.	\$10,500,000 <sup>3</sup>		\$10,500,000 <sup>3</sup>			
	Stock/Option Vesting	\$4,679,400 <sup>4</sup>	\$4,679,400 <sup>4</sup>	\$4,679,400 <sup>4</sup>			
	Health Care Benefits	\$273,308 <sup>5</sup>		\$273,308 <sup>5</sup>	\$273,308 <sup>5</sup>	\$49,826 <sup>5</sup>	\$273,308 <sup>5</sup>
David D. Mandarich	Severance Pay	\$2,490,000 <sup>2</sup>		\$2,490,000 <sup>2</sup>			
	Ann. Incentive Comp.	\$7,000,000 <sup>3</sup>		\$7,000,000 <sup>3</sup>			
	Stock/Option Vesting	\$4,679,400 <sup>4</sup>	\$4,679,400 <sup>4</sup>	\$4,679,400 <sup>4</sup>			
	Health Care Benefits	\$267,896 <sup>5</sup>		\$267,896 <sup>5</sup>	\$267,896 <sup>5</sup>	\$78,656 <sup>5</sup>	\$267,896 <sup>5</sup>
John M. Stephens	Severance Pay	\$425,000 <sup>11</sup>		\$425,000 <sup>12</sup>			
	Bonus Payment			\$425,000 <sup>13</sup>			
	Stock/Option Vesting	\$375,671 <sup>6</sup>	\$1,262,921 <sup>7</sup>	\$1,262,921 <sup>7</sup>			
	Health Care Benefits			\$15,731 <sup>10</sup>			
Michael Touff	Severance Pay			\$706,558 <sup>8</sup>			
	Bonus Payment			\$353,279 <sup>9</sup>			
	Stock/Option Vesting	\$166,047 <sup>6</sup>	\$427,878 <sup>7</sup>	\$427,878 <sup>7</sup>			
	Health Care Benefits			\$9,965 <sup>10</sup>			

<sup>1</sup> On March 8, 2012, the employment agreements for Messrs. Mizel and Mandarich were amended to require both a change in control and a material change. Prior to that date, both could have elected to terminate their employment after a change in control and receive the identified benefits. Following both a change in control and a material change, Mr. Stephens and Mr. Touff may elect to terminate employment and receive the identified benefits.

<sup>2</sup> Calculated as the aggregate base salary earned by the executive during the prior three years. This amount does not include any amount that may be payable upon a two-tier tender offer that results in a change of control. See

footnote 4 below.

3 Under the executive's employment agreement, this is calculated as of December 31, 2013 at 300% for Mr. Mizel and 200% for Mr. Mandarich of the "Annual Incentive Compensation" paid for 2012. These amounts vary from year to year. See "Employment Agreements" above for a description of these provisions.

4 Amount is the value of unvested restricted stock at December 31, 2013 plus an amount representing the difference between MDC's stock price at December 31, 2013 and the exercise price of unvested options, to the extent that the stock price exceeds the exercise price. Under the executive's Employment Agreement, the vesting of all options, dividend equivalents and other rights granted under equity incentive plans and any other Company plans would be accelerated so as to permit the executive to fully exercise all outstanding options and rights, if any, granted to the executive. In the event a change in control involves a two-tier tender offer, the Company would pay the executive (at the executive's election) the difference between the exercise price of the otherwise unvested options and the price offered in the first tier, or adjust the option terms to provide the executive with an equivalent value.

5 The amount shown is the total projected medical insurance benefit obligation for the executive, which would provide medical benefits that are at least comparable to those provided to the executive at the time his employment agreement was signed. After the end of his employment term, the date the executive becomes totally disabled, the date of the executive's termination without cause or the executive's election to terminate his employment following a change in control (but not in the event of termination for cause), the Company will pay the medical insurance benefit for the duration of the executive's life. The medical insurance benefit also provides comparable coverage for the executive's spouse for duration of the executive's life and, if she survives him, for an additional 60 months after his death. This amount is estimated based on 2013 costs incurred by the Company.

6 Represents the value of all unvested restricted stock awards, which would become fully vested upon a termination by the Company without cause pursuant to the terms of the restricted stock award agreement.

7 Amount is the value of unvested restricted stock at December 31, 2013, plus an amount representing the difference between MDC's stock price at December 31, 2013 and the exercise price of unvested options, to the extent that the stock price exceeds the exercise price. If a change in control occurs, all options, dividend equivalents and other rights granted to the employee under any Company equity incentive plans shall be accelerated and shall become exercisable immediately prior to the closing of the change in control so as to permit the employee fully to exercise all outstanding options and rights.

8 Calculated as two times Mr. Touff's annual base salary as of December 31, 2013.

9 Calculated as two times the amount equal to Mr. Touff's last regular annual bonus, provided that for these purposes such regular annual bonus amount shall not exceed 50% of his annual base salary at the rate in effect immediately before the change in control event.

10 If a change in control event occurs, the employee shall also be entitled to continue to participate in each of the Company's employee benefit plans, policies or arrangements which provide insurance and medical benefits on the same basis as was provided to the employee prior to the change in control event for a period of 12 months after the date of termination of employee's employment. Amount represents the estimated cost of 12 months of benefits for each employee.

11 Upon the Company's termination of Mr. Stephens' employment other than for cause, death or disability, he shall be entitled to receive an amount equal to his annual base salary at the rate in effect immediately before the termination of employment.

12 Calculated as one times Mr. Stephens' annual base salary as of December 31, 2013.

13 Calculated as one times Mr. Stephens' annual target annual bonus for 2013.

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## **2013 DIRECTOR COMPENSATION**

In May 2013, based upon an analysis and recommendation of the Compensation Committee's independent consultant regarding director compensation being paid by comparable sized public companies, in general, and other companies in the homebuilding industry, in particular, the Board of Directors approved increases in the compensation of the non-employee Directors as described below.

From January through May 2013, each Director (excluding the Lead Director) who was not an officer of the Company ("non-employee Director") was paid \$4,000 per month as a retainer and \$2,500 per meeting for attending Board meetings. Effective June 1, 2013, the Company increased the retainer to \$5,000 per month and increased the fee for attendance at Board meetings to \$3,000 per meeting. From January through May 2013, each respective Board committee member (also excluding the Lead Director) was paid \$2,500 per meeting for attending meetings of the Audit Committee, and \$2,000 per meeting for attending meetings of the Compensation and the Corporate Governance/Nominating Committees. Effective June 1, 2013, the Company increased the Audit Committee meeting fee to \$3,000 and the meeting fee for the Compensation and the Corporate Governance/ Nominating Committees to \$2,500. Each Director on the Legal Committee received \$2,000 per month for service on that committee. The chairman of the Compensation Committee and the chairman of the Corporate Governance/Nominating Committee received a retainer (in addition to meeting fees) in the amount of \$1,250 per month.

Mr. Berman received a retainer of \$2,000 per month during 2013 for services as a director of HomeAmerican. There were four meetings of the HomeAmerican board during 2013. Mr. Berman attended all of the meetings.

In consideration for performing all of the duties and responsibilities of the Lead Director, Mr. Buchwald received monthly compensation of \$27,500 during January through May 2013, in lieu of all other cash compensation paid to independent Directors, including retainer fees and Board and committee meeting fees. Effective June 1, 2013, the Lead Director's monthly compensation (in lieu of all other cash compensation) was increased to \$32,500.

Pursuant to the M.D.C. Holdings, Inc. 2011 Stock Option Plan for Non-Employee Directors, approved by the Shareholders in 2011, each non-employee Director is granted vested options to purchase 25,000 shares of Common Stock annually. The options are not exercisable until six months after grant. Each Director also is reimbursed for expenses related to his attendance at Board of Directors and committee meetings.

The following table sets forth information regarding the compensation of the Company's non-employee Directors for the fiscal year ended December 31, 2013. The two Directors (Messrs. Mizel and Mandarich) who are executive officers receive no compensation for serving as Directors in addition to the compensation received as executive officers.

Name	Fees Earned or Paid in Cash (\$)	<b>Option Awards (\$)<sup>1</sup></b>	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (\$)	Total (\$)
Raymond T. Baker	\$146,500	\$189,248	N/A	N/A	\$335,748
Michael Berman	\$183,000	\$189,248	N/A	N/A	\$372,248
David E. Blackford	\$148,000	\$189,248	N/A	N/A	\$337,248
Herbert T. Buchwald	\$365,000	\$189,248	N/A	N/A	\$554,248
Paris G. Reece III <sup>2</sup>	\$86,500	\$189,248	N/A	N/A	\$275,748
David Siegel	\$120,500	\$189,248	N/A	N/A	\$309,748

*Each non-employee Director was granted 25,000 options on August 1, 2013 at an exercise price of \$31.30 per share. The dollar amount shown for each Director is the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. For details on the assumptions used to calculate the fair value of options granted, see Note 21 (Stock Based Compensation) to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. As of December 31, 2013, Messrs. Baker, Berman, Blackford, Buchwald, Reece and Siegel had outstanding option grants of 50,000; 110,000; 125,000; 182,500; 25,000; and 125,000 shares, respectively.*

*2Mr. Reece was selected as a director in May 2013 and served for a portion of the year with a term expiring in 2014.*

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## **COMPENSATION POLICIES AND PRACTICES AND RISK MANAGEMENT**

The Company believes that its compensation policies and practices for its employees, including executive officers, do not create risks that are reasonably likely to have a material adverse effect on the Company.

## **COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

The following persons served as members of the Compensation Committee during 2013: Michael A. Berman, Herbert T. Buchwald and Raymond T. Baker. None of the committee members were, during the last fiscal year, officers or employees of the Company, none were formerly officers of the Company and none had a material interest in a “related person” transaction since the beginning of 2013. During 2013, none of our executive officers served as a member of the board of directors or compensation committee of any other company that has one or more executive officers serving as a member of our Board or Compensation Committee.

## **PROPOSAL TWO ADVISORY VOTE ON EXECUTIVE COMPENSATION**

Pursuant to Section 14A of the Securities Exchange Act, as amended and SEC Rule 14a-21(a), we are providing our Shareholders the opportunity to vote on a non-binding, advisory resolution to approve the compensation of our named executive officers (say on pay), which is described in this Proxy Statement. Currently, we are providing these advisory votes on annual basis. Following the 2014 Annual Meeting the next advisory say on pay vote will be held at our 2015 Annual Meeting of Shareholders.

“RESOLVED, that the shareholders hereby approve on an advisory basis the compensation of the Company’s named executive officers, as disclosed in this Proxy Statement pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion.”

As described above under “Compensation Discussions and Analysis,” we believe that our ability to retain and motivate named executive officers with the skills, experience and capacity to succeed in our competitive industry has been essential to the success of our Company and a significant factor in creating long-term value for our Shareholders. Our compensation philosophy recognizes the value of rewarding our executive officers for their past performance and motivating them to continue to excel in the future. We endeavor to deliver fair and appropriate compensation to our executive officers that is in the best interests of the Company and its shareholders.

The Board of Directors believes the Company’s compensation programs are tailored to retain and motivate key executives in alignment with maintaining and creating long-term value for our Shareholders. The Board of Directors

urges you to review carefully the Compensation Discussion and Analysis section of this Proxy Statement, which describes our compensation philosophy and programs in greater detail.

**The Board of Directors recommends that you vote in favor of the Company's executive compensation as described in this Proxy Statement by voting FOR this proposal.**

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## AUDIT COMMITTEE REPORT

*The following Report of the Audit Committee shall not be deemed to be “filed” with the SEC or to be subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended. The report shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.*

Management is responsible for the Company’s internal controls and the financial reporting process. The Company’s independent registered public accounting firm, Ernst & Young LLP (“outside auditors”), are responsible for performing an independent audit of the Company’s consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and for issuing a report thereon. The Audit Committee generally meets monthly, or more often as necessary, to fulfill its responsibility to monitor and oversee these processes, as described in the Audit Committee Charter.

The Audit Committee reviewed and discussed the audited consolidated financial statements of the Company for the year ended December 31, 2013 with the Company’s management, the outside auditors and the Company’s internal audit department. The Audit Committee has discussed with the Company’s independent auditors the matters required to be discussed by Public Company Accounting Oversight Board (PCAOB) AU 380 (Communications With Audit Committees).

The Audit Committee has received the written disclosures and the letter from the Company’s independent auditors required by applicable requirements of the PCAOB regarding the independent auditor’s communications with audit committees concerning independence, and has discussed with the auditors their independence status.

Based on the review and discussions described above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013 for filing with the SEC.

## AUDIT COMMITTEE

Herbert T. Buchwald, *Chairman*

Raymond T. Baker

Paris G. Reece III



## TRANSACTIONS WITH RELATED PERSONS

The Company leases its headquarters office space at 4350 S. Monaco Street, Denver CO 80237. Approximately 5,437 square feet in the Company's office building at 4350 S. Monaco Street is subleased by an entity affiliated with Mr. Mizel, for which it paid rent in 2013 to the Company of approximately \$109,570.

One of the Company's subsidiaries leased office space from an entity affiliated with Mr. Mizel. After receiving confirmation that the terms of the lease were on market terms, the Board of Directors approved the lease in April 2010. In April 2013 the Company allowed the lease to expire. Prior to expiration, the lessor was paid a total of \$23,355 in 2013.

During 2013, the Company paid a firm owned by Carol Mizel, Mr. Mizel's spouse, \$120,000 for consulting services in connection with corporate and consumer marketing, merchandising, design work, human resources development, product development, and such other matters as were requested by the Company's senior management. The firm, Mizel Design and Decorating Company, provided these services under an Independent Contractor Agreement with the Company, dated as of January 1, 2005. The Company also provides Ms. Mizel with office space in the Company's office building at 4350 S. Monaco Street, which has an estimated annual rental value of approximately \$5,000.

Effective as of January 1, 2005, and August 2, 2007, Larry A. Mizel, Chief Executive Officer, and David D. Mandarich, President and Chief Operating Officer, each entered into lease agreements for their non-business use of Company aircraft when the aircraft are not required for Company business. The lease agreements require payment of the Incremental Expenses incurred by the Company for each non-business use, as defined in the lease agreements. The Incremental Expenses represent the maximum reimbursement permitted by the Federal Aviation Administration in Federal Aviation Regulation Part 91.501(d). The executive officers also pay the federal excise tax for the non-business use of the aircraft. Copies of the lease agreements have been filed with the SEC on Form 8-K and Form 10-Q. At the end of 2012, Mr. Mizel and Mr. Mandarich had cash balances of \$144,000 and \$27,000, respectively, deposited with the Company for future non-business aircraft use. During 2013, they deposited additional amounts with the Company, in advance, of \$225,000 and \$15,000, respectively. They each incurred \$325,000 and \$20,000, respectively, in actual lease payments for 2013. Accordingly, they each had a cash balance at the end of the year of \$44,000 and \$22,000, respectively. In addition, when seats on the aircraft are available on a business flight and occupied for non-business purposes, income is imputed to the executive officer, who pays federal income tax based on the SIFL rules of the Internal Revenue Service.

In 2013, Mr. Reece's son purchased a Richmond American home from one of the Company's subsidiaries for approximately \$688,000 on the same terms offered to the public, and Mr. Reece provided financing for his son in the amount of approximately \$610,000 for the purchase transaction.



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## **REVIEW OF TRANSACTIONS WITH RELATED PERSONS**

Our policies require that full information be disclosed regarding transactions with related persons, without mandating how such transactions are to be addressed, so that they may be considered on their own merits. Specifically, our Corporate Code of Conduct, in addressing conflicts of interest, notes that personal interests of our employees and Directors and their family members can sometimes come into conflict, or create the appearance of a conflict, with the Company's interest. Accordingly, the Code of Conduct requires all employees (including our executive officers) and our Directors to immediately report conflicts of interest or transactions that create the appearance of a conflict of interest. These reports are to be made immediately to a Company compliance officer (as identified in the Code of Conduct), the Company's Asset Management Committees, or, for members of the Company's Board of Directors, to the Audit Committee, for a determination as to compliance with the Code of Conduct.

In addition, the Audit Committee's charter provides for the Committee to be informed of related party transactions. In support of this and the Company's SEC reporting requirements, the following written procedure has been adopted. Specifically, the Directors and executive officers are to report to the Company's legal department all related party transactions between the Company (or any of its subsidiaries) and any of the executive officers and Directors, including any of their family members.

## **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

The Company's executive officers and Directors and certain beneficial owners of more than ten percent of the Company's Common Stock are required under Section 16(a) of the Securities Exchange Act of 1934, as amended, to file initial reports of ownership and reports of changes in ownership of Common Stock of the Company with the SEC and furnish copies of those reports to the Company. Based solely upon a review of the copies of reports furnished to the Company and, in certain cases, written representations, the Company believes that during the year ended December 31, 2013, all such reports were filed on a timely basis.

## **PROPOSAL THREE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee is responsible for the selection, oversight, retention and termination of our independent auditors. The Audit Committee has selected Ernst & Young LLP, a registered public accounting firm, as our independent auditors for 2014. The Audit Committee and the Board seek shareholder ratification of this selection. The Audit Committee may, in its discretion, direct the appointment of another independent registered public accounting firm at any time during the fiscal year.

**The Board of Directors recommends a vote FOR ratification of the selection of Ernst & Young LLP as the Company's independent registered public accounting firm.**

A representative of Ernst & Young LLP is expected to be present at the Meeting and will have the opportunity to make a statement if so desired and will be available to respond to appropriate questions.

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A summary of the fees of Ernst & Young LLP for the years ended December 31, 2013 and 2012 are set forth below:

	2013 Fees	2012 Fees
Audit Fees <sup>1</sup>	\$1,037,448	\$875,594
Audit-Related Fees	—	—
Tax Fees <sup>2</sup>	45,717	30,000
All Other Fees <sup>3</sup>	2,147	2,147
<b>TOTAL FEES</b>	<b>\$1,083,250</b>	<b>\$907,741</b>

*1 Consists of fees and expenses for the audit of consolidated financial statements, SAS 100 interim reviews, the audit of internal control over financial reporting, services rendered in connection with the offering of senior notes and services rendered in connection with statutory and regulatory filings (includes the audit of HomeAmerican).*

*2 Consists of fees and expenses for miscellaneous tax consulting services.*

*3 Consists of fees for access to Ernst & Young LLP online resources.*

**Audit Committee Pre-Approval Procedures**

Under the procedures established by the Audit Committee, all audit services and all non-audit services by the Company's auditors are to be pre-approved by the Audit Committee, subject to the de minimus exception provided under Section 202 of the Sarbanes-Oxley Act of 2002. In certain cases, pre-approval is provided by the committee for up to a year as to particular categories of services, subject to a specific budget. The committee also has delegated to each of its members the authority to grant pre-approvals, such pre-approvals to be presented to the full committee at the next scheduled meeting. For 2013 and 2012, all of the fees included under the headings "Audit-Related Fees," "Tax Fees" and "All Other Fees" above were pre-approved by the Audit Committee.

**OTHER MATTERS**

Management and the Board of Directors of the Company know of no matters to be brought before the Meeting other than the proposals set forth above. If you grant a proxy, each of the persons named as proxy holder, Michael Touff and Joseph H. Fretz, or their nominees or substitutes, will have the discretion to vote your shares on any additional matters properly presented for a vote at the Meeting. If for any unforeseen reason, any of our nominees are not available as a candidate for director, the proxy holder may vote your proxy for such other candidate or candidates nominated by our Board.

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## **SHAREHOLDER PROPOSALS**

Any proposal a shareholder desires to present at the 2015 Annual Meeting of Shareholders and to have included in the Company's proxy soliciting materials pursuant to Rule 14a-8 of the Securities Exchange Act of 1934, as amended, must be received in writing by the Secretary of the Company not later than November 27, 2014. However, if the date of the 2015 Annual Meeting changes by more than 30 days from the date of the 2014 Annual Meeting, then the deadline is a reasonable time before the Company begins to print and mail its proxy materials as the Company shall inform the Shareholders.

For shareholder proposals submitted outside the Rule 14a-8 process, the Company's By-Laws provide that only business properly brought before a meeting will be conducted. For business to be properly brought before a meeting by a shareholder, the shareholder must give timely notice thereof in writing to the Secretary of the Company. To be timely, the notice must be delivered to, or mailed and received at, the principal executive offices of the Company not less than 60 days nor more than 90 days prior to the meeting; however, in the event that less than 75 days' notice or prior public disclosure of the date of such meeting is given or made to Shareholders, notice by the shareholder to be timely must be so received not later than the close of business on the 10<sup>th</sup> day following the day on which notice of the date of the meeting was mailed or such public disclosure was made. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the meeting: (i) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting, (ii) the name and record address of the shareholder proposing such business, (iii) the class and number of shares of the Company which are beneficially owned by the shareholder and (iv) any material interest of the shareholder in such business.

If notice of a proposal is not submitted in writing and received by the Company at the address appearing on the first page of this proxy statement by the dates described above, then the proposal will be deemed untimely under Rule 14a-4 of the Securities Exchange Act of 1934 and the persons appointed as the Company's proxies will have the right to exercise discretionary voting authority with respect to the proposal.

## **INCORPORATION BY REFERENCE**

The Company hereby incorporates by reference into this Proxy Statement Note 13 (Deferred Compensation Retirement Plans) and Note 21 (Stock-Based Compensation) to the Consolidated Financial Statements from Item 8 of its annual report on Form 10-K for the fiscal year ended December 31, 2013, filed with the Securities and Exchange Commission on February 5, 2014.

By the order of the board of directors,

**Larry A. Mizel**

*Chairman of the Board*

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