

M I HOMES INC
Form 10-Q
November 04, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the Quarterly Period Ended September 30, 2011

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

Commission File Number 1-12434

M/I HOMES, INC.
(Exact name of registrant as specified in it charter)

Ohio
(State or other jurisdiction of incorporation or
organization)

31-1210837
(I.R.S. Employer Identification No.)

3 Easton Oval, Suite 500, Columbus, Ohio 43219
(Address of principal executive offices) (Zip Code)
(614) 418-8000
(Registrant's telephone number, including
area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

Large accelerated filer	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company	

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common shares, par value \$.01 per share: 18,736,357 shares outstanding as of November 2, 2011.

M/I HOMES, INC.
FORM 10-Q

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M/I HOMES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2011	December 31, 2010
(Dollars in thousands, except par values)	(Unaudited)	
ASSETS:		
Cash	\$46,829	\$81,208
Restricted cash	46,218	41,923
Mortgage loans held for sale	36,666	43,312
Inventory	491,361	450,936
Property and equipment - net	14,741	16,554
Investment in Unconsolidated LLCs	10,256	10,589
Other assets	15,654	17,372
TOTAL ASSETS	\$661,725	\$661,894
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable	\$45,842	\$29,030
Customer deposits	5,377	3,017
Other liabilities	47,237	42,116
Community development district obligations	6,348	7,112
Obligation for consolidated inventory not owned	4,600	468
Note payable bank - financial services operations	31,658	32,197
Note payable - other	5,857	5,853
Senior notes	238,914	238,610
TOTAL LIABILITIES	385,833	358,403
Commitments and contingencies	—	—
SHAREHOLDERS' EQUITY:		
Preferred shares - \$.01 par value; authorized 2,000,000 shares; issued 4,000 shares	96,325	96,325
Common shares - \$.01 par value; authorized 38,000,000 shares; issued 22,101,723 shares at both September 30, 2011 and December 31, 2010	221	221
Additional paid-in capital	139,509	140,418
Retained earnings	106,677	137,578
Treasury shares - at cost - 3,365,366 and 3,577,388 shares, respectively, at September 30, 2011 and December 31, 2010	(66,840)	(71,051)
TOTAL SHAREHOLDERS' EQUITY	275,892	303,491
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$661,725	\$661,894

See Notes to Unaudited Condensed Consolidated Financial Statements.

M/I HOMES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011 (Unaudited)	2010 (Unaudited)	2011 (Unaudited)	2010 (Unaudited)
Revenue	\$ 141,624	\$ 135,609	\$ 389,638	\$ 451,402
Costs and expenses:				
Land and housing	116,269	108,659	322,886	373,030
Impairment of inventory and investment in Unconsolidated LLCs	1,697	1,796	18,013	11,206
General and administrative	13,896	13,148	38,064	39,601
Selling	11,213	11,735	30,621	36,482
Interest	3,384	1,952	10,884	6,172
Total costs and expenses	146,459	137,290	420,468	466,491
Loss before income taxes	(4,835)	(1,681)	(30,830)	(15,089)
Provision (benefit) for income taxes	(117)	389	71	123
Net loss	\$(4,718)	\$(2,070)	\$(30,901)	\$(15,212)
Loss per common share:				
Basic	\$(0.25)	\$(0.11)	\$(1.65)	\$(0.82)
Diluted	\$(0.25)	\$(0.11)	\$(1.65)	\$(0.82)
Weighted average shares outstanding:				
Basic	18,728	18,523	18,685	18,523
Diluted	18,728	18,523	18,685	18,523

See Notes to Unaudited Condensed Consolidated Financial Statements.

M/I HOMES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Dollars in thousands)	Nine Months Ended September 30, 2011 (Unaudited)							
	Preferred Shares		Common Shares		Additional	Retained	Treasury	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Earnings	Shares	Shareholders' Equity
Balance at December 31, 2010	4,000	\$96,325	18,524,335	\$ 221	\$140,418	\$137,578	\$(71,051)	\$ 303,491
Net loss	—	—	—	—	—	(30,901)	—	(30,901)
Income tax benefit from stock options and deferred compensation distributions	—	—	—	—	165	—	—	165
Stock options exercised	—	—	190,090	—	(2,275)	—	3,775	1,500
Share-based compensation expense	—	—	—	—	1,525	—	—	1,525
Deferral of executive and director compensation	—	—	—	—	112	—	—	112
Executive and director deferred compensation distributions	—	—	21,932	—	(436)	—	436	—
Balance at September 30, 2011	4,000	\$96,325	18,736,357	\$ 221	\$139,509	\$106,677	\$(66,840)	\$ 275,892

See Notes to Unaudited Condensed Consolidated Financial Statements.

M/I HOMES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Nine Months Ended September 30,	
	2011	2010
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES:		
Net loss	\$(30,901)	\$(15,212)
Adjustments to reconcile net loss to net cash used in operating activities:		
Inventory valuation adjustments and abandoned land transaction write-offs	17,424	11,603
Impairment of investment in Unconsolidated LLCs	1,029	—
Mortgage loan originations	(256,708)	(301,419)
Proceeds from the sale of mortgage loans	266,737	305,430
Fair value adjustment of mortgage loans held for sale	(3,383)	(1,479)
Net loss from property disposals	—	7
Depreciation	3,819	3,859
Amortization of intangibles, debt discount and debt issue costs	1,866	1,935
Share-based compensation expense	1,525	2,179
Deferred income tax benefit	(11,657)	(5,684)
Deferred tax asset valuation allowance	11,657	5,684
Excess tax (benefit) expense from stock-based payment arrangements	(165)	14
Equity in undistributed income of Unconsolidated LLCs	—	(155)
Write-off of unamortized debt discount and financing costs	—	311
Change in assets and liabilities:		
Cash held in escrow	237	(9,358)
Inventory	(50,618)	(81,562)
Other assets	954	32,617
Accounts payable	16,089	15,601
Customer deposits	2,314	589
Accrued compensation	(703)	(1,141)
Other liabilities	5,918	(6,806)
Net cash used in operating activities	(24,566)	(42,987)
INVESTING ACTIVITIES:		
Restricted cash	(4,532)	(16,448)
Purchase of property and equipment	(889)	(1,455)
Acquisition, net of cash acquired	(4,654)	—
Investment in Unconsolidated LLCs	(648)	(661)
Return of investment from Unconsolidated LLCs	—	13
Net cash used in investing activities	(10,723)	(18,551)
FINANCING ACTIVITIES:		
Repayments of bank borrowings - net	(539)	(369)
Proceeds from (principal repayments of) note payable-other and community development district bond obligations	4	(246)
Debt issue costs	(220)	(3,874)
Proceeds from exercise of stock options	1,500	5
Excess tax expense (benefit) from stock-based payment arrangements	165	(14)
Net cash provided by (used in) financing activities	910	(4,498)

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Net decrease in cash	(34,379)	(66,036)
Cash balance at beginning of period	81,208		109,930	
Cash balance at end of period	\$46,829		\$43,894	

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for:

Interest — net of amount capitalized	\$4,208		\$372	
Income taxes	\$282		\$274	

NON-CASH TRANSACTIONS DURING THE PERIOD:

Community development district infrastructure	\$(764	)	\$(780)
Consolidated inventory not owned	\$4,132		\$(616)
Contingent consideration related to acquisition	\$512		\$—	

See Notes to Unaudited Condensed Consolidated Financial Statements.

M/I HOMES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Basis of Presentation

The accompanying Unaudited Condensed Consolidated Financial Statements (the “financial statements”) of M/I Homes, Inc. and its subsidiaries (the “Company”) and notes thereto have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial information. The financial statements include the accounts of M/I Homes, Inc. and its subsidiaries. All intercompany transactions have been eliminated. Results for the interim period are not necessarily indicative of results for a full year. In the opinion of management, the accompanying financial statements reflect all adjustments (all of which are normal and recurring in nature) necessary for a fair presentation of financial results for the interim periods presented. These financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 (the “2010 Form 10-K”).

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during that period. Actual results could differ from these estimates and have a significant impact on the financial condition and results of operations and cash flows. With regard to the Company, estimates and assumptions are inherent in calculations relating to valuation of inventory and investment in unconsolidated limited liability companies (“Unconsolidated LLCs”), property and equipment depreciation, valuation of derivative financial instruments, accounts payable on inventory, accruals for costs to complete inventory, accruals for warranty claims, accruals for self-insured general liability claims, litigation, accruals for health care and workers' compensation, accruals for guaranteed or indemnified loans, stock-based compensation expense, income taxes, and contingencies. Items that could have a significant impact on these estimates and assumptions include the risks and uncertainties listed in “Item 1A. Risk Factors” in Part I of our 2010 Form 10-K and “Item 1A. Risk Factors” in Part II of our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011, as the same may be updated from time to time in our subsequent filings with the SEC.

Reclassifications

Certain amounts in the Unaudited Condensed Consolidated Financial Statements and the notes thereto for the nine months ended September 2010 have been reclassified to conform to the nine months ended September 2011 presentation. The Company believes these reclassifications are immaterial to the Unaudited Condensed Consolidated Financial Statements.

Impact of New Accounting Standards

In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-04: Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS (“ASU 2011-04”). ASU 2011-04 provides clarity to the fair value definition in order to achieve greater consistency in fair value measurements and disclosures between United States Generally Accepted Accounting Principles (“U.S. GAAP”) and International Financial Reporting Standards (“IFRS”). Additional disclosures are required regarding transfers of assets between Level 1 and 2 of the fair value hierarchy and regarding sensitivity of fair values for Level 3 assets. The effective date of this amendment is for fiscal periods beginning after December 15, 2011. We do not anticipate the adoption of this amendment to have a material impact on the Company's financial condition, results of operations or liquidity.

On April 29, 2011, the FASB issued ASU No. 2011-03: Transfers and Servicing (Topic 860) - Reconsideration of Effective Control for Repurchase Agreements ("ASU 2011-03"). ASU 2011-03 eliminates from U.S. GAAP the requirement for entities to consider whether a transferor (i.e., seller) has the ability to repurchase the financial assets in a repurchase agreement. This requirement was one of the criteria under Accounting Standards Codification 860 that entities used to determine whether the transferor maintained effective control. The effective date of this amendment is for fiscal periods beginning after December 15, 2011. We do not anticipate the adoption of this amendment to have a material impact on the Company's financial condition, results of operations or liquidity.

NOTE 2. Cash and Restricted Cash

The table below is a summary of our cash balances at September 30, 2011 and December 31, 2010:

(In thousands)	September 30, 2011	December 31, 2010
Homebuilding	\$32,388	\$71,874
Financial services	14,441	9,334
Unrestricted cash	\$46,829	\$81,208
Restricted cash	46,218	41,923
Total cash	\$93,047	\$123,131

Restricted cash consists of homebuilding cash the Company had designated as collateral at September 30, 2011 and December 31, 2010 in accordance with the four secured Letter of Credit Facilities that were entered into in July 2009 and the one secured Letter of Credit Facility that was entered into in June 2010 (collectively, as amended, the "Letter of Credit Facilities"). Restricted cash as of September 30, 2011 also consists of \$25.0 million the Company was required to pledge as security to the lenders under the Company's three-year \$140 million secured revolving credit facility dated June 9, 2010 (the "Credit Facility"). The security pledge was required in accordance with the terms of the Credit Agreement, as a result of the Company's ratios being less than both the required minimum Interest Coverage Ratio and the minimum Adjusted Cash Flow Ratio (as such terms are defined in the Credit Agreement) for the quarters ended June 30, 2011 and September 30, 2011. Restricted cash also includes cash held in escrow of \$2.9 million and \$3.1 million at September 30, 2011 and December 31, 2010, respectively.

NOTE 3. Fair Value Measurements

There are three measurement input levels for determining fair value: Level 1, Level 2, and Level 3. Fair values determined by Level 1 inputs utilize quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

Assets Measured on a Recurring Basis

The Company measures both mortgage loans held for sale and interest rate lock commitments ("IRLCs") at fair value. Fair value measurement results in a better presentation of the changes in fair values of the loans and the derivative instruments used to economically hedge them.

In the normal course of business, our financial services segment enters into contractual commitments to extend credit to buyers of single-family homes with fixed expiration dates. The commitments become effective when the borrowers "lock-in" a specified interest rate within established time frames. Market risk arises if interest rates move adversely between the time of the "lock-in" of rates by the borrower and the sale date of the loan to an investor. To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers, the Company enters into optional or mandatory delivery forward sale contracts to sell whole loans and mortgage-backed securities to broker/dealers. The forward sale contracts lock in an interest rate and price for the sale of loans similar to the specific

rate lock commitments. The Company does not engage in speculative or trading derivative activities. Both the rate lock commitments to borrowers and the forward sale contracts to broker/dealers or investors are undesignated derivatives, and accordingly, are marked to fair value through earnings. Changes in fair value measurements are included in earnings in the accompanying statements of operations.

The fair value of mortgage loans held for sale is estimated based primarily on published prices for mortgage-backed securities with similar characteristics. To calculate the effects of interest rate movements, the Company utilizes applicable published mortgage-backed security prices, and multiplies the price movement between the rate lock date and the balance sheet date by the notional loan commitment amount. The Company sells the majority of its loans on a servicing released basis, and receives a servicing release premium upon sale. Thus, the value of the servicing rights included in the fair value measurement is based upon contractual terms with investors and depends on the loan type. The Company applies a fallout rate to IRLCs when measuring the fair value of rate lock commitments. Fallout is defined as locked loan commitments for which the Company does not close a mortgage loan and is based on management's judgment and experience.

The fair value of the Company's forward sales contracts to broker/dealers solely considers the market price movement of the same type of security between the trade date and the balance sheet date. The market price changes are multiplied by the notional amount of the forward sales contracts to measure the fair value.

Loan Commitments. IRLCs are extended to certain home-buying customers who have applied for a mortgage loan and meet certain defined credit and underwriting criteria. Typically, the IRLCs will have a duration of less than six months; however, in certain markets, the duration could extend to twelve months.

Some IRLCs are committed to a specific third-party investor through the use of best-efforts whole loan delivery commitments matching the exact terms of the IRLC loan. The notional amount of the committed IRLCs and the best-efforts contracts was \$1.5 million and \$2.3 million at September 30, 2011 and December 31, 2010, respectively.

Uncommitted IRLCs are considered derivative instruments and are fair value adjusted, with the resulting gain or loss recorded in current earnings. At September 30, 2011 and December 31, 2010, the notional amount of the uncommitted IRLCs was \$45.2 million and \$24.9 million, respectively.

Forward Sales of Mortgage-Backed Securities. Forward sales of mortgage-backed securities ("FMBSs") are used to protect uncommitted IRLC loans against the risk of changes in interest rates between the lock date and the funding date. FMBSs related to uncommitted IRLCs are classified and accounted for as non-designated derivative instruments and are recorded at fair value, with gains and losses recorded in current earnings. At September 30, 2011 and December 31, 2010, the notional amount under these FMBSs was \$42.0 million and \$27.0 million, respectively.

Mortgage Loans Held for Sale: Mortgage loans held for sale consist primarily of single-family residential loans collateralized by the underlying property. During the intervening period between when a loan is closed and when it is sold to an investor, the interest rate risk is covered through the use of a best-efforts contract or by FMBSs.

The notional amount of the best-efforts contracts and related mortgage loans held for sale was \$5.1 million and \$42.7 million at September 30, 2011 and December 31, 2010, respectively.

The notional amounts of both the FMBSs and the related mortgage loans held for sale were \$30.0 million and \$29.5 million, respectively, at September 30, 2011 and \$2.0 million and \$1.9 million, respectively, at December 31, 2010. The FMBSs are classified and accounted for as non-designated derivative instruments, with gains and losses recorded in current earnings.

The table below shows the level and measurement of assets and liabilities measured on a recurring basis at September 30, 2011 and December 31, 2010:

Description of Financial Instrument (in thousands)	Fair Value Measurements September 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
Mortgage loans held for sale	\$36,666	\$—	\$36,666	\$—
Forward sales of mortgage-backed securities	(1,213)	—	(1,213)	—
Interest rate lock commitments	682	—	682	—
Best-efforts contracts	(115)	—	(115)	—
Total	\$36,020	\$—	\$36,020	\$—
	Fair Value		Significant Other Significant	

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Description of Financial Instrument (in thousands)	Measurements December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Mortgage loans held for sale	\$43,312	\$—	\$43,312	\$—
Forward sales of mortgage-backed securities	121	—	121	—
Interest rate lock commitments	(43)	—	(43)	—
Best-efforts contracts	340	—	340	—
Total	\$43,730	\$—	\$43,730	\$—

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The following table sets forth the amount of gain (loss) recognized, within our financial services revenue in the Unaudited Condensed Consolidated Statements of Operations, on assets and liabilities measured on a recurring basis:

Description (in thousands)	Three Months Ended September		Nine Months Ended September	
	30, 2011	2010	30, 2011	2010
Mortgage loans held for sale	\$1,233	\$(1,339)	\$3,383	\$1,479
Forward sales of mortgage-backed securities	(1,350)	)1,956	(1,334)	)828
Interest rate lock commitments	497	(373)	725	474
Best-efforts contracts	(180)	)22	(455)	)389
Total gain (loss) recognized	\$200	\$266	\$2,319	\$736

The following tables set forth the fair value of the Company's derivative instruments and their location within the Unaudited Condensed Consolidated Balance Sheets for the periods indicated:

Description of Derivatives	Asset Derivatives		Liability Derivatives	
	September 30, 2011		September 30, 2011	
	Balance Sheet	Fair Value	Balance Sheet	Fair Value
	Location	(in thousands)	Location	(in thousands)
Forward sales of mortgage-backed securities	Other assets	\$—	Other liabilities	\$1,213
Interest rate lock commitments	Other assets	682	Other liabilities	—
Best-efforts contracts	Other assets	—	Other liabilities	115
Total fair value measurements		\$682		\$1,328
Description of Derivatives	Asset Derivatives		Liability Derivatives	
	At December 31, 2010		At December 31, 2010	
	Balance Sheet	Fair Value	Balance Sheet	Fair Value
	Location	(in thousands)	Location	(in thousands)
Forward sales of mortgage-backed securities	Other assets	\$121	Other liabilities	\$—
Interest rate lock commitments	Other assets	—	Other liabilities	43
Best-efforts contracts	Other assets	340	Other liabilities	—
Total fair value measurements		\$461		\$43

Assets Measured on a Non-Recurring Basis

The Company assesses inventory for recoverability on a quarterly basis if events or changes in local or national economic conditions indicate that the carrying amount of an asset may not be recoverable. In conducting our quarterly review for indicators of impairment on a community level, we evaluate, among other things, margins on sales contracts in backlog, the margins on homes that have been delivered, expected changes in margins with regard to future home sales over the life of the community, expected changes in margins with regard to future land sales, and the value of the land itself. We pay particular attention to communities in which inventory is moving at a slower than anticipated absorption pace, and communities whose average sales price and/or margins are trending downward and are anticipated to continue to trend downward. We also evaluate communities where management intends to lower the sales price or offer incentives in order to improve absorptions even if the community's historical results do not indicate a potential for impairment. From this review, we identify communities whose carrying values may exceed their undiscounted cash flows. For those communities whose carrying values exceed the estimated undiscounted future cash flows and which are deemed to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the communities exceeds the estimated fair value. Due to the fact that the Company's cash flow models and estimates of fair values are based upon management estimates and assumptions, unexpected changes in market conditions may lead the Company to incur additional impairment charges in the future.

Our determination of fair value is based on projections and estimates, which are Level 3 measurement inputs. Our analysis is completed at a phase level within each community; therefore, changes in local conditions may affect one or several of our communities. For all of the categories discussed below, the key assumptions relating to the valuations are dependent on project-specific local market and/or community conditions and are inherently uncertain. Because each inventory asset is unique, there are numerous inputs and assumptions used in our valuation techniques. Market factors that may impact these assumptions include:

- historical project results such as average sales price and sales pace, if closings have occurred in the project;
- competitors' market and/or community presence and their competitive actions;
- project specific attributes such as location desirability and uniqueness of product offering;
- potential for alternative product offerings to respond to local market conditions; and
- current economic and demographic conditions and related trends and forecasts.

These, and other market factors that may impact project assumptions, are considered by personnel in our homebuilding divisions as they prepare or update the forecasts for each community. Quantitative and qualitative factors other than home sales prices could significantly impact the potential for future impairments. The sales objectives can differ between communities, even within a given sub-market. For example, facts and circumstances in a given community may lead us to price our homes with the objective of yielding a higher sales absorption pace, while facts and circumstances in another community may lead us to price our homes to minimize deterioration in our gross margins, although it may result in a slower sales absorption pace. Furthermore, the key assumptions included in our estimated future undiscounted cash flows may be interrelated. For example, a decrease in estimated base sales price or an increase in home sales incentives may result in a corresponding increase in sales absorption pace. Changes in our key assumptions, including estimated average selling price, construction and development costs, absorption pace, selling strategies, or discount rates, could materially impact future cash flow and fair value estimates.

Operating Communities: If an indicator for impairment exists for existing operating communities, the recoverability of assets is evaluated by comparing the carrying amount of the assets to estimated future undiscounted net cash flows expected to be generated by the assets based on home sales. These estimated cash flows are developed based primarily on management's assumptions relating to the specific community. The significant assumptions used to evaluate the recoverability of assets include: the timing of development and/or marketing phases; projected sales price and sales pace of each existing or planned community; the estimated land development, home construction, and selling costs of the community; overall market supply and demand; the local market; and competitive conditions. Management reviews these assumptions on a quarterly basis. While we consider available information to determine what we believe to be our best estimates as of the end of a reporting period, these estimates are subject to change in future reporting periods as facts and circumstances change. Some of the most critical assumptions in the Company's cash flow models are projected absorption pace for home sales, sales prices, and costs to build and deliver homes on a community by community basis.

In order to estimate the assumed absorption pace for home sales included in the Company's cash flow models, the Company analyzes the historical absorption pace in the community as well as other communities in the geographic area. In addition, the Company considers internal and external market studies and trends, which may include, but are not limited to, statistics on population demographics, unemployment rates, foreclosure sales, and availability of competing products in the geographic area where a community is located. When analyzing the Company's historical absorption pace for home sales and corresponding internal and external market studies, the Company places greater emphasis on more current metrics and trends such as the absorption pace realized in its most recent quarters.

In order to estimate the sales prices included in its cash flow models, the Company considers the historical sales prices realized on homes it delivered in the community and other communities in the geographic area, as well as the sales prices included in its current backlog for such communities. In addition, the Company considers internal and external market studies and trends, which may include, but are not limited to, statistics on sales prices in neighboring communities, which include the impact of short sales, if any, and sales prices on similar products in non-neighboring communities in the geographic area where the community is located. When analyzing its historical sales prices and corresponding market studies, the Company places greater emphasis on more current metrics and trends such as the sales prices realized in its most recent quarters and the sales prices in current backlog. Based upon this analysis, the Company sets a sales price for each house type in the community which it believes will achieve an acceptable gross margin and sales pace in the community. This price becomes the price published to the sales force for use in its sales efforts. The Company then considers the average of these published sales prices when estimating the future sales prices in its cash flow models.

In order to arrive at the Company's assumed costs to build and deliver homes, the Company generally assumes a cost structure reflecting contracts currently in place with its vendors and subcontractors adjusted for any anticipated cost reduction initiatives or increases in cost structure. With respect to overhead included in the cash flow models, the

Company uses forecasted rates included in the Company's annual budget adjusted for actual experience that is materially different than budgeted rates.

Future Communities: If an indicator of impairment exists for raw land, land under development, or lots that management anticipates will be utilized for future homebuilding activities, the recoverability of assets is evaluated by comparing the carrying amount of the assets to estimated future undiscounted cash flows expected to be generated by the assets based on home sales, consistent with the evaluations performed for operating communities discussed above.

For raw land, land under development, or lots that management intends to market for sale to a third party, but that do not meet all of the criteria to be classified as land held for sale as discussed below, the estimated fair value of the assets is determined based on either the estimated net sales proceeds expected to be realized on the sale of the assets or the estimated fair value determined using cash flow valuation techniques.

If the Company has not yet determined whether raw land or land under development will be utilized for future homebuilding activities or marketed for sale to a third party, the Company assesses the recoverability of the inventory using a probability-weighted approach.

Land Held for Sale: Land held for sale includes land that meets all of the following six criteria: (1) management, having the authority to approve the action, commits to a plan to sell the asset; (2) the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets; (3) an active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated; (4) the sale of the asset is probable, and transfer of the asset is expected to qualify for recognition as a completed sale, within one year; (5) the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (6) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The Company records land held for sale at the lower of its carrying value or estimated fair value less costs to sell. In performing the impairment evaluation for land held for sale, management considers, among other things, prices for land in recent comparable sales transactions, market analysis and recent bona fide offers received from outside third parties, as well as actual contracts. If the estimated fair value less the costs to sell an asset is less than the current carrying value, the asset is written down to its estimated fair value less costs to sell.

Investment In Unconsolidated Limited Liability Companies: The Company evaluates its investment in Unconsolidated LLCs for potential impairment on a quarterly basis. If the fair value of the investment is less than the investment's carrying value and the Company has determined that the decline in value is other than temporary, the Company would write down the value of the investment to fair value.

The determination of whether an investment's fair value is less than the carrying value requires management to make certain assumptions regarding the amount and timing of future contributions to the Unconsolidated LLC, the timing of distribution of lots to the Company from the Unconsolidated LLC, the projected fair value of the lots at the time of distribution to the Company, and the estimated proceeds from, and timing of, the sale of land or lots to third parties. In determining the fair value of investments in Unconsolidated LLCs, the Company evaluates the projected cash flows associated with each Unconsolidated LLC. As of September 30, 2011, the Company used a discount rate of 16% in determining the fair value of investments in Unconsolidated LLCs.

In addition to the assumptions management must make to determine if the investment's fair value is less than the carrying value, management must also use judgment in determining whether the impairment is other than temporary. The factors management considers are: (1) the length of time and the extent to which the market value has been less than cost; (2) the financial condition and near-term prospects of the Company; and (3) the intent and ability of the Company to retain its investment in the Unconsolidated LLC for a period of time sufficient to allow for any anticipated recovery in market value. Because of the high degree of judgment involved in developing these assumptions, it is possible that the Company may determine the investment is not impaired in the current period but, due to passage of time or change in market conditions leading to changes in assumptions, impairment could occur.

The table below shows the level and measurement of assets and liabilities measured on a non-recurring basis for the nine months ended September 30, 2011 and the year ended December 31, 2010:

Description of asset or liability (In thousands)	Fair Value Measurements September 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses
Inventory	\$31,118	\$—	\$—	\$31,118	\$16,984

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Investments in Unconsolidated LLCs	\$970	\$—	\$—	\$970	\$1,029
Total fair value measurements	\$32,088	\$—	\$—	\$32,088	\$18,013
Description of asset or liability (In thousands)	Fair Value Measurements December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses
Inventory	\$16,793	\$—	\$—	\$16,793	\$12,506
Investments in Unconsolidated LLCs	\$50	\$—	\$—	\$50	\$32
Total fair value measurements	\$16,843	\$—	\$—	\$16,843	\$12,538

Financial Instruments

Counterparty Credit Risk. To reduce the risk associated with accounting losses that would be recognized if counterparties failed to perform as contracted, the Company limits the entities with whom management can enter into commitments. This risk of accounting loss is the difference between the market rate at the time of non-performance by the counterparty and the rate to which the Company committed.

The following table presents the carrying amounts and fair values of the Company's financial instruments at September 30, 2011 and December 31, 2010. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price).

(In thousands)	September 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash, including restricted cash	\$93,047	\$93,047	\$123,131	\$123,131
Mortgage loans held for sale	36,666	36,666	43,312	43,312
Other assets	14,089	14,111	14,998	15,052
Notes receivable	883	790	919	771
Commitments to extend real estate loans	682	682	—	—
Best-efforts contracts for committed IRLCs and mortgage loans held for sale	—	—	340	340
Forward sales of mortgage-backed securities	—	—	121	121
Liabilities:				
Note payable - banks	31,658	31,658	32,197	32,197
Mortgage notes payable	5,857	6,253	5,853	6,564
Senior Notes	238,914	216,549	238,610	243,263
Commitments to extend real estate loans	—	—	43	43
Best-efforts contracts for committed IRLCs and mortgage loans held for sale	115	115	—	—
Forward sales of mortgage-backed securities	1,213	1,213	—	—
Other liabilities	45,909	45,909	38,301	38,301
Off-Balance Sheet Financial Instruments:				
Letters of credit	—	808	—	627

The following methods and assumptions were used by the Company in estimating its fair value disclosures of financial instruments at September 30, 2011 and December 31, 2010:

Cash, Restricted Cash and Other Liabilities. The carrying amounts of these items approximate fair value.

Mortgage Loans Held for Sale, Forward Sales of Mortgage-Backed Securities, Commitments to Extend Real Estate Loans, Best-Efforts Contracts for Committed IRLCs and Mortgage Loans Held for Sale, Note Payable - Other and Senior Notes. The fair value of these financial instruments was determined based upon market quotes at September 30, 2011 and December 31, 2010. The market quotes used were quoted prices for similar assets or liabilities along with inputs taken from observable market data by correlation. The inputs were adjusted to account for the condition of the asset or liability.

Other Assets and Notes Receivable. The estimated fair value was determined by calculating the present value of the amounts based on the estimated timing of receipts using discount rates that incorporate management's estimate of risk

associated with the corresponding note receivable.

Note Payable - Banks. The interest rate available to the Company fluctuates with the Alternate Base Rate or the Eurodollar Rate (for the Credit Facility) or LIBOR (for M/I Financial Corp.'s \$50 million secured mortgage warehousing agreement dated April 18, 2011 (the "MIF Mortgage Warehousing Agreement")), and thus their carrying value is a reasonable estimate of fair value.

Mortgage Notes Payable. The estimated fair value was determined by calculating the present value of the future cash flows using the Company's current incremental borrowing rate.

Letters of Credit. Letters of credit of \$38.0 million and \$39.2 million represent potential commitments at September 30, 2011 and December 31, 2010, respectively. The letters of credit generally expire within one or two years. The estimated fair value of letters of credit was determined using fees currently charged for similar agreements.

NOTE 4. Inventory

A summary of the Company's inventory as of September 30, 2011 and December 31, 2010 is as follows:

(In thousands)	September 30, 2011	December 31, 2010
Single-family lots, land and land development costs	\$240,916	\$262,960
Homes under construction	204,338	151,524
Model homes and furnishings - at cost (less accumulated depreciation: September 30, 2011 - \$3,989; December 31, 2010 - \$3,230)	28,425	23,255
Community development district infrastructure	6,348	7,112
Land purchase deposits	3,081	1,965
Consolidated inventory not owned	8,253	4,120
Total inventory	\$491,361	\$450,936

Single-family lots, land and land development costs include raw land that the Company has purchased to develop into lots, costs incurred to develop the raw land into lots, and lots for which development has been completed but which have not yet been used to start construction of a home.

Homes under construction includes homes that are in various stages of construction. As of September 30, 2011 and December 31, 2010, we had 638 homes (with a carrying value of \$80.8 million) and 561 homes (with a carrying value of \$74.4 million), respectively, included in homes under construction that were not subject to a sales contract.

Model homes and furnishings include homes that are under construction or have been completed and are being used as sales models. The amount also includes the net book value of furnishings included in our model homes. Depreciation on model home furnishings is recorded using an accelerated method over the estimated useful life of the assets, typically three years.

The Company assesses inventory for recoverability on a quarterly basis, by reviewing for impairment whenever events or changes in local or national economic conditions indicate that the carrying amount of an asset may not be recoverable. Refer to Note 3 for additional details relating to our procedures for evaluating our inventories for impairment.

Land purchase deposits include both refundable and non-refundable amounts paid to third party sellers relating to the purchase of land. On an ongoing basis, the Company evaluates the land option agreements relating to the land purchase deposits. In the period during which the Company makes the decision not to proceed with the purchase of land under an agreement, the Company writes off any deposits and accumulated pre-acquisition costs relating to such agreement. For the three and nine months ended September 30, 2011, the Company wrote off \$0.1 million and \$0.4 million, respectively, in option deposits and pre-acquisition costs. Refer to Note 5 for additional details relating to write-offs of land option deposits and pre-acquisition costs.

NOTE 5. Valuation Adjustments and Write-offs

The Company assesses inventory for recoverability on a quarterly basis, by reviewing for impairment whenever events or changes in local or national economic conditions indicate that the carrying amount of an asset may not be recoverable.

A summary of the Company's valuation adjustments and write-offs for the three and nine months ended September 30, 2011 and 2010 is as follows:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Impairment of operating communities:				
Midwest	\$962	\$141	\$3,944	\$276
Southern	594	72	2,459	583
Mid-Atlantic	—	110	17	3,086
Total impairment of operating communities (a)	\$1,556	\$323	\$6,420	\$3,945
Impairment of future communities:				
Midwest	\$141	\$—	\$6,519	\$2,837
Southern	—	1,473	3,455	3,134
Mid-Atlantic	—	—	—	1,290
Total impairment of future communities (a)	\$141	\$1,473	\$9,974	\$7,261
Impairment of land held for sale:				
Midwest	\$—	\$—	\$—	\$—
Southern	—	—	590	—
Mid-Atlantic	—	—	—	—
Total impairment of land held for sale (a)	\$—	\$—	\$590	\$—
Option deposits and pre-acquisition costs write-offs:				
Midwest	\$121	\$5	\$143	\$94
Southern	19	94	56	95
Mid-Atlantic	—	41	241	208
Total option deposits and pre-acquisition costs write-offs (b)	\$140	\$140	\$440	\$397
Impairment of investments in Unconsolidated LLCs:				
Midwest	\$—	\$—	\$979	\$—
Southern	—	—	50	—
Mid-Atlantic	—	—	—	—
Total impairment of investments in Unconsolidated LLCs (a)	\$—	\$—	\$1,029	\$—
Total impairments and write-offs of option deposits and pre-acquisition costs	\$1,837	\$1,936	\$18,453	\$11,603

(a) Amounts are recorded within Impairment of inventory and investment in Unconsolidated LLCs in the Company's Unaudited Condensed Consolidated Statements of Operations.

(b) Amounts are recorded within General and administrative expenses in the Company's Unaudited Condensed Consolidated Statements of Operations.

NOTE 6. Capitalized Interest

The Company capitalizes interest during land development and home construction. Capitalized interest is charged to cost of sales as the related inventory is delivered to a third party. A summary of capitalized interest is as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Capitalized interest, beginning of period	\$19,758	\$21,470	\$20,075	\$23,670
Interest capitalized to inventory	2,773	2,495	7,613	7,480
Capitalized interest charged to cost of sales	(2,515)	(2,719)	(7,672)	(9,904)
Capitalized interest, end of period	\$20,016	\$21,246	\$20,016	\$21,246
Interest incurred — net	\$6,157	\$4,447	\$18,497	\$13,652

NOTE 7. Investment in Unconsolidated Limited Liability Companies

At September 30, 2011, the Company had interests ranging from 33% to 50% in Unconsolidated LLCs that do not meet the criteria of variable interest entities because each of the entities had sufficient equity at risk to permit the entity to finance its activities without additional subordinated support from the equity investors, and one of these Unconsolidated LLCs has outside financing that is not guaranteed by the Company. These Unconsolidated LLCs engage in land acquisition and development activities for the purpose of selling or distributing (in the form of a capital distribution) developed lots to the Company and its partners in the entity. The Company's maximum exposure related to its investment in these entities as of September 30, 2011 was the amount invested of \$10.3 million. Included in the Company's investment in Unconsolidated LLCs at both September 30, 2011 and December 31, 2010 were \$0.8 million of capitalized interest and other costs. The Company does not have a controlling interest in these Unconsolidated LLCs; therefore, they are recorded using the equity method of accounting.

The Company evaluates its investment in Unconsolidated LLCs for potential impairment on a quarterly basis. If the fair value of the investment (see Note 3) is less than the investment's carrying value, and the Company determines the decline in value was other than temporary, the Company would write down the investment to fair value.

NOTE 8. Guarantees and Indemnifications

Warranty

The Company offers a limited warranty program in conjunction with a thirty-year transferable structural limited warranty on homes closed after September 30, 2007. This warranty program covers construction defects and certain damage resulting from construction defects for a statutory period based on geographic market and state law (currently ranging from five to ten years for the states in which the Company operates) and includes a mandatory arbitration clause. Prior to this warranty program, the Company provided up to a two-year limited warranty on materials and workmanship and a twenty-year (for homes closed between September 1, 1989 and April 24, 1998) and a thirty-year (for homes closed after April 24, 1998) transferable limited warranty against major structural defects. Warranty expense is accrued as the home sale is recognized and is intended to cover estimated material and outside labor costs to be incurred during the warranty period.

The accrual amounts are based upon historical experience and geographic location. Our warranty accruals are included in Other liabilities in the Company's Unaudited Condensed Consolidated Balance Sheets. A summary of warranty activity for the three and nine months ended September 30, 2011 and 2010 is as follows:

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
(In thousands)	2011	2010	2011	2010
Warranty accrual, beginning of period	\$7,835	\$8,478	\$8,335	\$8,657
Warranty expense on homes delivered during the period	1,131	1,073	3,100	3,792
Changes in estimates for pre-existing warranties	1,021	159	921	139
Settlements made during the period	(1,771)	(1,596)	(4,140)	(4,474)
Warranty accrual, end of period	\$8,216	\$8,114	\$8,216	\$8,114

Guarantees

In the ordinary course of business, M/I Financial Corp. ("M/I Financial"), a wholly-owned subsidiary of M/I Homes, Inc., enters into agreements that guarantee certain purchasers of its mortgage loans that M/I Financial will repurchase a loan if certain conditions occur, primarily if the mortgagor does not meet those conditions of the loan within the first

six months after the sale of the loan. Loans totaling approximately \$81.5 million and \$142.2 million were covered under the above guarantees as of September 30, 2011 and December 31, 2010, respectively. A portion of the revenue paid to M/I Financial for providing the guarantees on the above loans was deferred at September 30, 2011, and will be recognized in income as M/I Financial is released from its obligation under the guarantees. M/I Financial has not repurchased any loans under the above agreements in 2011, but has received inquiries concerning underwriting matters from third party investors concerning certain loans. The total of these loans was approximately \$4.8 million and \$3.6 million at September 30, 2011 and December 31, 2010, respectively. The risk associated with the guarantees above is offset by the value of the underlying assets. The Company has accrued management's best estimate of the probable loss on the above loans.

M/I Financial has also guaranteed the collectability of certain loans to third-party insurers of those loans for periods ranging from five to thirty years. The maximum potential amount of future payments is equal to the outstanding loan value less the value of the underlying asset plus administrative costs incurred related to foreclosure on the loans, should this event occur. The total of these

costs are estimated to be \$1.4 million as of both September 30, 2011 and December 31, 2010. The Company has accrued management's best estimate of the probable loss on the above loans.

The Company has recorded a liability relating to the guarantees described above totaling \$2.6 million and \$2.0 million at September 30, 2011 and December 31, 2010, respectively, which is management's best estimate of the Company's liability.

At September 30, 2011, the Company had outstanding \$41.4 million of 6.875% Senior Notes due 2012 (the "2012 Senior Notes"), which are fully and unconditionally guaranteed jointly and severally by all of the Company's wholly-owned subsidiaries. At September 30, 2011, the Company also had outstanding \$200 million aggregate principal amount of 8.625% Senior Notes due 2018 (the "2018 Senior Notes"). The Company's obligations under both the 2018 Senior Notes and the Credit Facility are guaranteed by all of the Company's subsidiaries, with the exception of subsidiaries that are primarily engaged in the business of mortgage financing, the origination of mortgages for resale, title insurance or similar financial businesses relating to the homebuilding and home sales business and certain subsidiaries that are not wholly-owned by the Company or another subsidiary.

NOTE 9. Commitments and Contingencies

At September 30, 2011, the Company had outstanding approximately \$67.8 million of completion bonds and standby letters of credit, some of which were issued to various local governmental entities that expire at various times through December 2016. Included in this total are: (1) \$22.9 million of performance and maintenance bonds and \$26.9 million of performance letters of credit that serve as completion bonds for land development work in progress (including the Company's less than \$0.1 million share of our Unconsolidated LLCs' letters of credit and bonds); (2) \$11.1 million of financial letters of credit, of which \$3.7 million represent deposits on land and lot purchase agreements; and (3) \$6.9 million of financial bonds.

As of September 30, 2011, the Company has identified 93 homes that have been confirmed as having defective imported drywall installed by our subcontractors. All of these homes are located in Florida. While we are continuing to investigate whether other homes are affected, the number of additional affected homes newly identified each quarter has declined significantly since 2009 to a nominal amount. As of September 30, 2011, we have completed the repair of 80 homes, are in the process of repairing nine homes, and are continuing to seek the authorization of the remaining homeowners to repair their homes. In consideration for performing these repairs, we received from the homeowner a full release of claims (excluding, in nearly all cases, personal injury claims) arising from the defective drywall. Since 2009, the Company has accrued approximately \$13.0 million for the repair of these 93 homes. The remaining balance in this accrual is \$1.4 million, which is included in Other liabilities on the Company's Unaudited Condensed Consolidated Balance Sheets. Based on our investigation to date and our evaluation of the defective drywall issue, we believe our existing accrual is sufficient to cover costs and claims associated with the repair of these homes. However, if and to the extent the scope of the defective drywall issue proves to be significantly greater than we currently believe, then it is possible that we could incur additional costs or liabilities related to defective drywall that may have a material adverse effect on our results of operations, financial condition, and cash flows. During the third quarter of 2010, the Company received a \$2.4 million settlement for claims attributed to the defective drywall. The Company has made demand for additional reimbursement from manufacturers, suppliers, insurers and others for costs the Company has incurred and may incur in the future in connection with the defective drywall. Please refer to Note 10 for further information on this matter.

At September 30, 2011, the Company had sales agreements outstanding, some of which have contingencies for financing approval, to deliver 838 homes with an aggregate sales price of approximately \$222.7 million. Based on our current housing gross margin, excluding the charge for impairment of inventory, less variable selling costs, less payments to date on homes in backlog, we estimate payments totaling approximately \$107.6 million to be made in

2011 relating to those homes. At September 30, 2011, the Company also has options and contingent purchase agreements to acquire land and developed lots with an aggregate purchase price of approximately \$140.3 million. Purchase of properties under these agreements is contingent upon satisfaction of certain requirements by the Company and the sellers.

NOTE 10. Legal Liabilities

On March 5, 2009, a resident of Florida and an owner of one of our homes filed a complaint in the United States District Court for the Southern District of Ohio, on behalf of himself and other similarly situated owners and residents of homes in the United States or alternatively in Florida, against the Company and certain other identified and unidentified parties (the "Initial Action"). The plaintiff alleged that the Company built his home with defective drywall, manufactured and supplied by certain of the defendants, that contains sulfur or other organic compounds capable of harming the health of individuals and damaging property. The plaintiff alleged physical and economic damages and sought legal and equitable relief, medical monitoring and attorney's fees. The Company filed a responsive pleading on or about April 30, 2009. This case was consolidated with other similar actions not involving the Company and transferred to the Eastern District of Louisiana pursuant to an order from the United States Judicial Panel on Multidistrict Litigation for coordinated pre-trial proceedings (collectively, the "In Re: Chinese Manufactured Drywall

Product Liability Litigation”). In connection with the administration of the In Re: Chinese Manufactured Drywall Product Liability Litigation, the same homeowner and eight other homeowners were named as plaintiffs in omnibus class action complaints filed in and after December 2009 against certain identified manufacturers of drywall and others (including the Company), including one homeowner named as a plaintiff in an omnibus class action complaint filed in March 2010 against various unidentified manufacturers of drywall and others (including the Company) (collectively, the “MDL Omnibus Actions”). As they relate to the Company, the Initial Action and the MDL Omnibus Actions address substantially the same claims and seek substantially the same relief. The Company has entered into agreements with several of the homeowners named as plaintiffs pursuant to which the Company agreed to make repairs to their homes consistent with repairs made to the homes of other homeowners (as described in Note 9). As a result of these agreements, the Initial Action has been resolved and dismissed, and five of the eight other homeowners named as plaintiffs in omnibus class action complaints have dismissed their claims against the Company. The Company intends to vigorously defend against the claims of the remaining plaintiffs. Given the inherent uncertainties in this litigation, as of September 30, 2011, no accrual has been recorded (other than the accrual for repairs described in Note 9) because we cannot make a determination as to the probability of a loss resulting from this matter or estimate the range of possible loss, if any. There can be no assurance that the ultimate resolution of the MDL Omnibus Actions, or any other actions or claims relating to defective drywall that may be asserted in the future, will not have a material adverse effect on our results of operations, financial condition, and cash flows. Please refer to Note 9 for further information on this matter.

The Company and certain of its subsidiaries have been named as defendants in other claims, complaints and legal actions which are routine and incidental to our business. Certain of the liabilities resulting from these other matters are covered by insurance. While management currently believes that the ultimate resolution of these other matters, individually and in the aggregate, will not have a material effect on the Company's financial position, results of operations and cash flows, such matters are subject to inherent uncertainties. The Company has recorded a liability to provide for the anticipated costs, including legal defense costs, associated with the resolution of these other matters. However, there exists the possibility that the costs to resolve these other matters could differ from the recorded estimates and, therefore, have a material effect on the Company's net income for the periods in which the matters are resolved. At September 30, 2011 and December 31, 2010, we had \$0.7 million and \$1.2 million, respectively, reserved for legal expenses.

NOTE 11. Debt

Notes Payable - Homebuilding

At September 30, 2011, borrowing availability under the Credit Facility was \$52.9 million in accordance with the borrowing base calculation, and there were no borrowings outstanding and \$20.0 million of letters of credit outstanding under the Credit Facility, leaving net remaining borrowing availability of \$32.9 million. At September 30, 2011, the Company had pledged \$69.1 million in aggregate book value of inventory and \$25 million of cash to secure any borrowings and letters of credit outstanding under the Credit Facility. At September 30, 2011, the Company was in compliance with all covenants of the Credit Facility.

At September 30, 2011, there was \$17.8 million of outstanding letters of credit under the Letter of Credit Facilities, which was collateralized with \$18.3 million of the Company's cash.

Notes Payable — Financial Services

At September 30, 2011, M/I Financial had \$26.4 million outstanding under the MIF Mortgage Warehousing Agreement, and was in compliance with all covenants of that agreement.

At September 30, 2011, M/I Financial had sold and not yet repurchased \$5.3 million of mortgages under its uncommitted repurchase agreement that was entered into on December 27, 2010 (the "MIF Mortgage Repurchase Agreement") and was in compliance with all covenants of that agreement. As a result of M/I Financial's obligation to repurchase mortgages under the terms of the agreement, fundings under the MIF Mortgage Repurchase Agreement are accounted for as secured borrowings.

Senior Notes

As of September 30, 2011, we had \$41.4 million of our 2012 Senior Notes and \$200.0 million of our 2018 Senior Notes outstanding. The 2012 Senior Notes and the 2018 Senior Notes are general, unsecured senior obligations of the Company and the subsidiary guarantors and rank equally in right of payment with all our existing and future unsecured senior indebtedness. The 2012 Senior Notes are fully and unconditionally guaranteed on a senior unsecured basis by all of our wholly-owned subsidiaries. The parent company has no independent assets or operations, and any subsidiaries of the parent company, other than the subsidiary guarantors of the 2012 Senior Notes, are minor. The 2018 Senior Notes are fully and unconditionally guaranteed on a senior unsecured basis by all of our subsidiaries that, as of the date of issuance of the notes, were guarantors under the Credit Facility.

The indenture governing our 2012 Senior Notes and the indenture governing our 2018 Senior Notes contain restrictive covenants that limit, among other things, the ability of the Company to pay dividends on common and preferred shares, or repurchase any shares. If our "restricted payments basket," as defined in each of the indentures, is less than zero, we are restricted from making certain payments, including dividends, as well as from repurchasing any shares. At September 30, 2011, the restricted payments basket was \$(213.5) million under the indenture governing our 2012 Senior Notes, and \$(4.9) million under the indenture governing our 2018 Senior Notes. As a result of the deficit in our restricted payments basket under the indenture governing our 2012 Senior Notes and the indenture governing our 2018 Senior Notes, we are currently restricted from paying dividends on our common shares and our 9.75% Series A Preferred Shares, and from repurchasing any of our common or preferred shares. These restrictions do not affect our compliance with any of the covenants contained in the Credit Facility.

NOTE 12. Loss Per Share

Loss per share is calculated based on the weighted average number of common shares outstanding during each period. There are no adjustments to net loss necessary in the calculation of basic or diluted loss per share. The table below presents information regarding basic and diluted loss per share for the three and nine months ended September 30, 2011 and 2010:

(In thousands, except per share amounts)	Three Months Ended September 30,					
	2011			2010		
	Loss	Shares	Loss per share	Loss	Shares	Loss per share
Net loss to common shareholders	\$(4,718)	18,728	\$(0.25)	\$(2,070)	18,523	\$(0.11)
Diluted loss to common shareholders	\$(4,718)	18,728	\$(0.25)	\$(2,070)	18,523	\$(0.11)
Anti-dilutive stock equivalent awards not included in the calculation of diluted loss per share		2,167			2,100	
(In thousands, except per share amounts)	Nine Months Ended September 30,					
	2011			2010		
	Loss	Shares	Loss per share	Loss	Shares	Loss per share
Net loss to common shareholders	\$(30,901)	18,685	\$(1.65)	\$(15,212)	18,523	\$(0.82)
Diluted loss to common shareholders	\$(30,901)	18,685	\$(1.65)	\$(15,212)	18,523	\$(0.82)
Anti-dilutive stock equivalent awards not included in the calculation of diluted loss per share		2,186			2,050	

NOTE 13. Income Taxes

Deferred federal and state income tax assets primarily represent the deferred tax benefits arising from temporary differences between book and tax income which will be recognized in future years as an offset against future taxable income. These assets were largely generated as a result of inventory impairments that the Company incurred since

late 2006. If, for some reason, the combination of future years' income (or loss), combined with the reversal of the timing differences, results in a loss, such losses can be carried forward to future years to recover the deferred tax assets.

The Company evaluates its deferred tax assets, including net operating losses, to determine if a valuation allowance is required. We are required to assess whether a valuation allowance should be established based on the consideration of all available evidence using a "more likely than not" standard. In making such judgments, significant weight is given to evidence that can be objectively verified. A cumulative loss in recent years is significant negative evidence in considering whether deferred tax assets are realizable, and also restricts the amount of reliance on projections of future taxable income to support the recovery of deferred tax assets. The Company's current and prior year losses present the most significant negative evidence as to whether the Company needs to reduce its deferred tax assets with a valuation allowance. We are currently in excess of a four-year cumulative pre-tax loss position. We currently believe the cumulative weight of the negative evidence exceeds that of the positive evidence and, as a result, it is more likely than not that we will not be able to utilize all of our deferred tax assets. Therefore, for the nine months ended September 30, 2011, the Company has recorded an additional valuation allowance of \$11.6 million, for a total valuation allowance recorded of \$139.5 million, against its deferred tax assets. Excluding the carryback of \$0.6 million of certain 2011 expenses to 2001, we do not expect to record any additional tax benefits in 2011 as our carryback under the current tax law has been exhausted. The accounting for deferred taxes is based upon an estimate of future results. Differences between the anticipated and actual outcomes of these future tax consequences could have a material impact on the Company's consolidated results of operations or

financial position.

At September 30, 2011, the Company had federal net operating loss carryforwards of approximately \$79.3 million and federal credit carryforwards of \$3.6 million. These federal carryforward benefits will begin to expire in 2028. The Company also had state net operating loss benefits of \$15.3 million, with \$8.3 million expiring between 2020 and 2027, and \$7.0 million expiring between 2028 and 2033.

NOTE 14. Business Segments

The Company's segment information is presented on the basis that the chief operating decision makers use in evaluating segment performance. The Company's chief operating decision makers evaluate the Company's performance in various ways, including: (1) the results of our eleven individual homebuilding operating segments and the results of our financial services operations; (2) the results of our three homebuilding regions; and (3) our consolidated financial results. We have determined our reportable segments as follows: Midwest homebuilding, Southern homebuilding, Mid-Atlantic homebuilding and financial services operations. The homebuilding operating segments that are included within each reportable segment have similar operations and exhibit similar economic characteristics. Our homebuilding operations include the acquisition and development of land, the sale and construction of single-family attached and detached homes, and the occasional sale of lots to third parties. The homebuilding operating segments that comprise each of our reportable segments are as follows:

Midwest	Southern	Mid-Atlantic
Columbus, Ohio	Tampa, Florida	Washington, D.C.
Cincinnati, Ohio	Orlando, Florida	Charlotte, North Carolina
Indianapolis, Indiana	Houston, Texas ⁽¹⁾	Raleigh, North Carolina
Chicago, Illinois	San Antonio, Texas ⁽²⁾	

⁽¹⁾ We announced our entry into the Houston, Texas market in March 2010, and we commenced home construction in Houston during the fourth quarter of 2010.

⁽²⁾ In April 2011, we acquired the assets of TriStone Homes, a privately-held homebuilder based in San Antonio, Texas.

Our financial services operations include the origination and sale of mortgage loans and title services primarily for purchasers of the Company's homes.

The following table shows, by segment, revenue, operating (loss) income and interest expense for the three and nine months ended September 30, 2011 and 2010, as well as the Company's loss before income taxes for such periods:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2011	2010	September 30, 2011	2010
Revenue:				
Midwest homebuilding	\$58,941	\$63,757	\$168,291	\$218,392
Southern homebuilding	35,281	16,217	84,117	66,910
Mid-Atlantic homebuilding	44,530	52,029	127,863	155,300
Financial services	2,872	3,606	9,367	10,800
Total revenue	\$141,624	\$135,609	\$389,638	\$451,402

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(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Operating (loss) income:				
Midwest homebuilding (a)	\$1,364	\$837	\$(6,925)	\$1,012
Southern homebuilding (a)	(203)	(79)	(6,895)	(2,363)
Mid-Atlantic homebuilding (a)	1,909	3,916	4,959	4,664
Financial services	969	1,753	4,203	5,104
Less: Corporate selling, general and administrative expenses	(5,490)	(6,156)	(15,288)	(17,334)
Total operating (loss) income	\$(1,451)	\$271	\$(19,946)	\$(8,917)
Interest expense:				
Midwest homebuilding	\$1,291	\$527	\$4,612	\$2,346
Southern homebuilding	768	351	1,965	1,047
Mid-Atlantic homebuilding	1,122	840	3,663	2,175
Financial services	203	234	644	604
Total interest expense	\$3,384	\$1,952	\$10,884	\$6,172
Loss before income taxes	\$(4,835)	\$(1,681)	\$(30,830)	\$(15,089)

For the three months ended September 30, 2011 and 2010, the impact of charges relating to the impairment of inventory and investment in Unconsolidated LLCs and the write-off of abandoned land transaction costs was \$1.8 million and \$1.9 million, respectively. These charges reduced operating income by \$1.2 million and \$0.1 million in (a) the Midwest region and \$0.6 million and \$1.6 million in the Southern region for the three months ended September 30, 2011 and 2010, respectively, and \$0.2 million in the Mid-Atlantic region for the three months ended September 30, 2010. There were no impairment charges in our Mid-Atlantic region for the three months ended September 30, 2011.

For the nine months ended September 30, 2011 and 2010, the impact of charges relating to the impairment of inventory and investment in unconsolidated LLCs and the write-off of abandoned land transaction costs was \$18.5 million and \$11.6 million, respectively. These charges reduced operating income by \$11.6 million and \$3.2 million in the Midwest region, \$6.6 million and \$3.8 million in the Southern region and \$0.3 million and \$4.6 million in the Mid-Atlantic region for the nine months ended September 30, 2011 and 2010, respectively.

The following tables show total assets by segment:

At September 30, 2011					
(In thousands)	Midwest	Southern	Mid-Atlantic	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	\$499	\$1,474	\$1,107	\$—	\$3,080
Inventory (a)	206,217	92,912	189,152	—	488,281
Investments in unconsolidated entities	5,149	5,107	—	—	10,256
Other assets	4,472	2,333	3,417	149,886	160,108
Total assets	\$216,337	\$101,826	\$193,676	\$149,886	\$661,725

At December 31, 2010

Corporate,

(In thousands)	Midwest	Southern	Mid-Atlantic	Financial Services and Unallocated	Total
Deposits on real estate under option or contract	\$ 1,027	\$ 85	\$ 853	\$—	\$ 1,965
Inventory (a)	212,159	69,652	167,161	—	448,972
Investments in unconsolidated entities	5,929	4,660	—	—	10,589
Other assets	5,187	1,719	4,283	189,179	200,368
Total assets	\$ 224,302	\$ 76,116	\$ 172,297	\$ 189,179	\$ 661,894

Inventory includes single-family lots, land and land development costs; land held for sale; homes under (a) construction; model homes and furnishings; community development district infrastructure; and consolidated inventory not owned.

NOTE 15. Supplemental Guarantor Information

The Company's obligations under the 2018 Senior Notes are not guaranteed by all of the Company's subsidiaries and therefore, the Company has disclosed condensed consolidating financial information in accordance with SEC Regulation S-X Rule 3-10, Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered.

The following condensed consolidating financial information includes balance sheets, statements of operations and cash flow information for the parent company, the Guarantors, as defined and listed in the indenture for the 2018 Senior Notes (the “Guarantor Subsidiaries”), collectively, and for all other subsidiaries and joint ventures of the Company (“the Non-Guarantor Subsidiaries”), collectively. Each Guarantor Subsidiary is a direct or indirect wholly-owned subsidiary of M/I Homes, Inc. and has fully and unconditionally guaranteed the 2018 Senior Notes, on a joint and several basis.

There are no significant restrictions on the parent company's ability to obtain funds from its Guarantor Subsidiaries in the form of a dividend, loan, or other means.

As of September 30, 2011, each of the Company's subsidiaries is a Guarantor Subsidiary, with the exception of subsidiaries that are primarily engaged in the business of mortgage financing, the origination of mortgages for resale, title insurance or similar financial businesses relating to the homebuilding and home sales business and certain subsidiaries that are not wholly-owned by the Company or another subsidiary.

In the condensed financial tables presented below, the parent company presents all of its wholly-owned subsidiaries as if they were accounted for under the equity method. All applicable corporate expenses have been allocated appropriately among the Guarantor Subsidiaries and Non-Guarantor Subsidiaries.

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

(In thousands)	Three Months Ended September 30, 2011				Consolidated
	M/I Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
Revenue	\$—	\$138,752	\$2,872	\$—	\$141,624
Costs and expenses:					
Land and housing	—	116,269	—	—	116,269
Impairment of inventory and investment in Unconsolidated LLCs	—	1,697	—	—	1,697
General and administrative	—	11,914	1,982	—	13,896
Selling	—	11,213	—	—	11,213
Interest	—	3,181	203	—	3,384
Total costs and expenses	—	144,274	2,185	—	146,459
(Loss) income before income taxes	—	(5,522)	)687	—	(4,835)
(Benefit) provision for income taxes	—	(366)	)249	—	(117)
Equity in subsidiaries	(4,718)	)—	—	4,718	—
Net (loss) income	\$(4,718)	)(5,156)	)\$438	\$4,718	\$(4,718)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

(In thousands)	Nine Months Ended September 30, 2011				Consolidated
	M/I Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
Revenue	\$—	\$380,271	\$9,367	\$—	\$389,638
Costs and expenses:					
Land and housing	—	322,886	—	—	322,886
Impairment of inventory and investment in Unconsolidated LLCs	—	18,013	—	—	18,013
General and administrative	—	32,606	5,458	—	38,064
Selling	—	30,621	—	—	30,621
Interest	—	10,240	644	—	10,884
Total costs and expenses	—	414,366	6,102	—	420,468
(Loss) income before income taxes	—	(34,095)	)3,265	—	(30,830)
(Benefit) provision for income taxes	—	(1,003)	)1,074	—	71
Equity in subsidiaries	(30,901)	—	—	30,901	—
Net (loss) income	\$(30,901)	\$(33,092 )	)\$2,191	\$30,901	\$(30,901)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

(In thousands)	Three Months Ended September 30, 2010				Consolidated
	M/I Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
Revenue	\$—	\$132,003	\$3,606	\$—	\$135,609
Costs and expenses:					
Land and housing	—	108,659	—	—	108,659
Impairment of inventory and investment in Unconsolidated LLCs	—	1,796	—	—	1,796
General and administrative	—	11,216	1,932	—	13,148
Selling	—	11,735	—	—	11,735
Interest	—	1,718	234	—	1,952
Total costs and expenses	—	135,124	2,166	—	137,290
(Loss) income before income taxes	—	(3,121)	)1,440	—	(1,681)
(Benefit) provision for income taxes	—	(710))1,099	—	389
Equity in subsidiaries	(2,070)	—	—	2,070	—

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Net (loss) income	\$ (2,070)	\$ (2,411)	\$ 341	\$ 2,070	\$ (2,070)
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CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

(In thousands)	Nine Months Ended September 30, 2010				Consolidated
	M/I Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
Revenue	\$—	\$440,602	\$10,800	\$—	\$451,402
Costs and expenses:					
Land and housing	—	373,030	—	—	373,030
Impairment of inventory and investment in Unconsolidated LLCs	—	11,206	—	—	11,206
General and administrative	—	33,673	5,928	—	39,601
Selling	—	36,482	—	—	36,482
Interest	—	5,568	604	—	6,172
Total costs and expenses	—	459,959	6,532	—	466,491
(Loss) income before income taxes	—	(19,357	)4,268	—	(15,089)
(Benefit) provision for income taxes	—	(1,741	)1,864	—	123
Equity in subsidiaries	(15,212	)—	—	15,212	—
Net (loss) income	\$(15,212	)\$(17,616	)\$2,404	\$15,212	\$(15,212)

CONDENSED CONSOLIDATING BALANCE SHEET

(In thousands)	September 30, 2011				Eliminations	Consolidated
	M/I Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries			
ASSETS:						
Cash	\$—	\$32,388	\$ 14,441	\$—		\$46,829
Restricted cash	—	46,218	—	—		46,218
Mortgage loans held for sale	—	—	36,666	—		36,666
Inventory	—	491,361	—	—		491,361
Property and equipment - net	—	14,604	137	—		14,741
Investment in Unconsolidated LLCs	—	—	10,256	—		10,256
Investment in subsidiaries	384,684	—	—	(384,684)		—
Intercompany	124,261	(114,647)	(9,614)	—		—
Other assets	5,861	8,732	1,061	—		15,654
TOTAL ASSETS	\$514,806	\$478,656	\$ 52,947	\$ (384,684)		\$661,725
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES:						
Accounts payable	\$—	\$45,111	\$ 731	\$—		\$45,842
Customer deposits	—	5,377	—	—		5,377
Other liabilities	—	41,028	6,209	—		47,237
Community development district obligations	—	6,348	—	—		6,348
Obligation for consolidated inventory not owned	—	4,600	—	—		4,600
Note payable bank - financial services operations	—	—	31,658	—		31,658
Note payable - other	—	5,857	—	—		5,857
Senior notes	238,914	—	—	—		238,914
TOTAL LIABILITIES	238,914	108,321	38,598	—		385,833
Shareholders' equity	275,892	370,335	14,349	(384,684)		275,892
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$514,806	\$478,656	\$ 52,947	\$ (384,684)		\$661,725

CONDENSED CONSOLIDATING BALANCE SHEET

(In thousands)	December 31, 2010				Eliminations	Consolidated
	M/I Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries			
ASSETS:						
Cash	\$—	\$71,874	\$ 9,334	\$—		\$81,208
Restricted cash	—	41,923	—	—		41,923
Mortgage loans held for sale	—	—	43,312	—		43,312
Inventory	—	450,936	—	—		450,936
Property and equipment - net	—	16,340	214	—		16,554
Investment in Unconsolidated LLCs	—	—	10,589	—		10,589
Investment in subsidiaries	418,085	—	—	(418,085)		—
Intercompany	116,875	(102,884)	(13,991)	—		—
Other assets	7,141	7,625	2,606	—		17,372
TOTAL ASSETS	\$542,101	\$485,814	\$ 52,064	\$ (418,085)		\$661,894
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES:						
Accounts payable	\$—	\$28,631	\$ 399	\$—		\$29,030
Customer deposits	—	3,017	—	—		3,017
Other liabilities	—	37,305	4,811	—		42,116
Community development district obligations	—	7,112	—	—		7,112
Obligation for consolidated inventory not owned	—	468	—	—		468
Note payable bank - financial services operations	—	—	32,197	—		32,197
Note payable - other	—	5,853	—	—		5,853
Senior notes	238,610	—	—	—		238,610
TOTAL LIABILITIES	238,610	82,386	37,407	—		358,403
Shareholders' equity	303,491	403,428	14,657	(418,085)		303,491
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$542,101	\$485,814	\$ 52,064	\$ (418,085)		\$661,894

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(In thousands)	Nine Months Ended September 30, 2011				Consolidated
	M/I Homes, Inc.	Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash (used in) provided by operating activities	—	(37,939	) 13,373	—	(24,566)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Restricted cash	—	(4,532	) —	—	(4,532)
Purchase of property and equipment	—	(851	) (38	) —	(889)
Acquisition, net of cash acquired	—	(4,654	) —	—	(4,654)
Proceeds from the sale of property	—	—	—	—	—
Distributions from Unconsolidated LLCs	—	—	(648	) —	(648)
Net cash used in investing activities	—	(10,037	) (686	) —	(10,723)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Repayments of bank borrowings - net	—	—	(539	) —	(539)
Proceeds from (principal repayments of) note payable-other and community development district bond obligations	—	4	—	—	4
Intercompany financing	(1,665	) 8,636	(6,971) —	—
Debt issue costs	—	(150	) (70	) —	(220)
Proceeds from exercise of stock options	1,500	—	—	—	1,500
Excess tax expense from stock-based payment arrangements	165	—	—	—	165
Net cash provided by (used) in financing activities	—	8,490	(7,580	) —	910
Net (decrease) increase in cash	—	(39,486	) 5,107	—	(34,379)
Cash balance at beginning of period	—	71,874	9,334	—	81,208
Cash balance at end of period	\$—	\$ 32,388	\$ 14,441	\$—	\$ 46,829

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(In thousands)	Nine Months Ended September 30, 2010				Consolidated
	M/I Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash (used in) provided by operating activities	—	(49,864	) 6,877	—	(42,987)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Restricted cash	—	(16,448	) —	—	(16,448)
Purchase of property and equipment	—	(1,375	) (80	) —	(1,455)
Investment in Unconsolidated LLCs	—	—	(661	) —	(661)
Return of investment from Unconsolidated LLCs	—	—	13	—	13
Net cash used in investing activities	—	(17,823	) (728	) —	(18,551)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Repayments of bank borrowings - net	—	—	(369	) —	(369)
Principal repayments of note payable - other and community development district bond obligations	—	(246	) —	—	(246)
Intercompany financing	9	4,749	(4,758) —	—
Debt issue costs	—	(3,568	) (306	) —	(3,874)
Proceeds from exercise of stock options	5	—	—	—	5
Excess tax benefit from stock-based payment arrangements	(14	) —	—	—	(14)
Net cash provided by (used in) financing activities	—	935	(5,433	) —	(4,498)
Net (decrease) increase in cash	—	(66,752	) 716	—	(66,036)
Cash balance at beginning of period	—	96,464	13,466	—	109,930
Cash balance at end of period	\$—	\$ 29,712	\$ 14,182	\$—	\$ 43,894

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

M/I Homes, Inc. (the “Company” or “we”) is one of the nation’s leading builders of single-family homes, having delivered nearly 80,000 homes since we commenced homebuilding activities in 1976. The Company's homes are marketed and sold under the M/I Homes, Showcase Homes and TriStone Homes trade names. The Company has homebuilding operations in Columbus and Cincinnati, Ohio; Indianapolis, Indiana; Chicago, Illinois; Tampa and Orlando, Florida; Houston and San Antonio, Texas; Charlotte and Raleigh, North Carolina; and the Virginia and Maryland suburbs of Washington, D.C.

Included in this Management's Discussion and Analysis of Financial Condition and Results of Operations are the following topics relevant to the Company's performance and financial condition:

- Information Relating to Forward-Looking Statements;
- Our Application of Critical Accounting Estimates and Policies;
- Our Results of Operations;
- Discussion of Our Liquidity and Capital Resources;
- Update of Our Contractual Obligations;
- Discussion of Our Utilization of Off-Balance Sheet Arrangements; and
- Impact of Interest Rates and Inflation.

FORWARD-LOOKING STATEMENTS

Certain information included in this report or in other materials we have filed or will file with the Securities and Exchange Commission (the “SEC”) (as well as information included in oral statements or other written statements made or to be made by us) contains or may contain forward-looking statements, including, but not limited to, statements regarding our future financial performance and financial condition. Words such as “expects,” “anticipates,” “targets,” “goals,” “projects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” variations of such words and similar expressions are intended to identify such forward-looking statements. These statements involve a number of risks and uncertainties. Any forward-looking statements that we make herein and in future reports and statements are not guarantees of future performance, and actual results may differ materially from those in such forward-looking statements as a result of various risk factors. Please see “Item 1A. Risk Factors” in Part I of our Annual Report on Form 10-K for the year ended December 31, 2010 and “Item 1A. Risk Factors” in Part II of our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011.

Any forward-looking statement speaks only as of the date made. Except as required by applicable law, we undertake no obligation to publicly update any forward-looking statements or risk factors, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in our subsequent reports on Forms 10-K, 10-Q and 8-K and our other filings with the SEC should be consulted. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995, and all of our forward-looking statements are expressly qualified in their entirety by the cautionary statements contained or referenced in this section.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial

statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. On an ongoing basis, management evaluates such estimates and judgments and makes adjustments as deemed necessary. Actual results could differ from these estimates using different estimates and assumptions, or if conditions are significantly different in the future. Listed below are those estimates that we believe are critical and require the use of complex judgment in their application.

Revenue Recognition. Revenue from the sale of a home is recognized when the closing has occurred, title has passed, and an adequate initial and continuing investment by the homebuyer is received, or when the loan has been sold to a third-party investor. Revenue for homes that close to the buyer having a deposit of 5% or greater, home closings financed by third parties, and all home closings insured under Federal Housing Administration (“FHA”), U.S. Veterans Administration (“VA”), and other government-insured programs are recorded in the financial statements on the date of closing.

Revenue related to all other home closings initially funded by our wholly-owned subsidiary, M/I Financial Corp. (“M/I Financial”), is recorded on the date that M/I Financial sells the loan to a third-party investor, because the receivable from the third-party investor is not subject to future subordination, and the Company has transferred to this investor the usual risks and rewards of ownership that is in substance a sale and does not have a substantial continuing involvement with the home.

All associated homebuilding costs are charged to cost of sales in the period when the revenues from home closings are recognized. Homebuilding costs include: land and land development costs; home construction costs (including an estimate of the costs to complete construction); previously capitalized interest; real estate taxes; indirect costs; and estimated warranty costs. All other costs are expensed as incurred. Sales incentives, including pricing discounts and financing costs paid by the Company, are recorded as a reduction of revenue in the Company’s Unaudited Condensed Consolidated Statements of Operations. Sales incentives in the form of options or upgrades are recorded in homebuilding costs.

We recognize the majority of the revenue associated with our mortgage loan operations when the mortgage loans and related servicing rights are sold to third party investors. The revenue recognized is reduced by the fair value of the related guarantee provided to the investor. The fair value of the guarantee is recognized in revenue when the Company is released from its obligation under the guarantee. Generally, all of the financial services mortgage loans and related servicing rights are sold to third party investors within two to three weeks of origination. We recognize financial services revenue associated with our title operations as homes are closed, closing services are rendered, and title policies are issued, all of which generally occur simultaneously as each home is closed. All of the underwriting risk associated with title insurance policies is transferred to third-party insurers.

Inventory. We use the specific identification method for the purpose of accumulating costs associated with land acquisition and development, and home construction. Inventory is recorded at cost, unless events and circumstances indicate that the carrying value of the land may be impaired. In addition to the costs of direct land acquisition, land development and related costs (both incurred and estimated to be incurred) and home construction costs, inventory includes capitalized interest, real estate taxes, and certain indirect costs incurred during land development and home construction. Such costs are charged to cost of sales simultaneously with revenue recognition, as discussed above. When a home is closed, we typically have not yet paid all incurred costs necessary to complete the home. As homes close, we compare the home construction budget to actual recorded costs to date to estimate the additional costs to be incurred from our subcontractors related to the home. We record a liability and a corresponding charge to cost of sales for the amount we estimate will ultimately be paid related to that home. We monitor the accuracy of such estimates by comparing actual costs incurred in subsequent months to the estimate. Although actual costs to complete a home in the future could differ from our estimates, our method has historically produced consistently accurate estimates of actual costs to complete closed homes.

The Company assesses inventory for recoverability on a quarterly basis if events or changes in local or national economic conditions indicate that the carrying amount of an asset may not be recoverable. In conducting our quarterly review for indicators of impairment on a community level, we evaluate, among other things, margins on sales contracts in backlog, the margins on homes that have been delivered, expected changes in margins with regard to future home sales over the life of the community, expected changes in margins with regard to future land sales, and the value of the land itself. We pay particular attention to communities in which inventory is moving at a slower than anticipated absorption pace, and communities whose average sales price and/or margins are trending downward and are anticipated to continue to trend downward. We also evaluate communities where management intends to lower the sales price or offer incentives in order to improve absorptions even if the community’s historical results do not indicate a potential for impairment. From this review, we identify communities whose carrying values may exceed their undiscounted cash flows. For those communities whose carrying values exceed the estimated undiscounted future cash

flows and which are deemed to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the communities exceeds the estimated fair value. Due to the fact that the Company's cash flow models and estimates of fair values are based upon management estimates and assumptions, unexpected changes in market conditions may lead the Company to incur additional impairment charges in the future.

For all of the categories listed below, the key assumptions relating to the valuations are dependent on project-specific local market and/or community conditions and are inherently uncertain. Because each inventory asset is unique, there are numerous inputs and assumptions used in our valuation techniques. Market factors that may impact these assumptions include:

- Historical project results such as average sales price and sales pace, if closings have occurred in the project;
- competitors' market and/or community presence and their competitive actions;
- project specific attributes such as location desirability and uniqueness of product offering;
- potential for alternative product offerings to respond to local market conditions; and
- current economic and demographic conditions and related trends and forecasts.

These and other market factors that may impact project assumptions are considered by personnel in our homebuilding divisions as they prepare or update the forecasts for each community. Quantitative and qualitative factors other than home sales prices could significantly impact the potential for future impairments. The sales objectives can differ between communities, even within a given sub-market. For example, facts and circumstances in a given community may lead us to price our homes with the objective of yielding a higher sales absorption pace, while facts and circumstances in another community may lead us to price our homes to minimize deterioration in our gross margins, although it may result in a slower sales absorption pace. Furthermore, the key assumptions included in our estimated future undiscounted cash flows may be interrelated. For example, a decrease in estimated base sales price or an increase in home sales incentives may result in a corresponding increase in sales absorption pace or a reduction in base house costs. Changes in our key assumptions, including estimated average selling price, construction and development costs, absorption pace, selling strategies, or discount rates, could materially impact future cash flow and fair value estimates.

As of September 30, 2011, our projections generally assume a gradual improvement in market conditions over time, along with a gradual increase in costs. These assumed gradual increases generally begin in 2012. If communities are not recoverable based on undiscounted cash flows, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. The fair value of a community is estimated by discounting management's cash flow projections using an appropriate risk-adjusted interest rate. As of September 30, 2011, we utilized discount rates ranging from 13% to 16% in our valuations. The discount rate used in determining each asset's estimated fair value reflects the inherent risks associated with the related estimated cash flow stream, as well as current risk-free rates available in the market and estimated market risk premiums. For example, construction in progress inventory, which is closer to completion, will generally require a lower discount rate than land under development in communities consisting of multiple phases spanning several years of development.

Operating Communities: If an indicator for impairment exists for existing operating communities, the recoverability of assets is evaluated by comparing the carrying amount of the assets to estimated future undiscounted net cash flows expected to be generated by the assets based on home sales. These estimated cash flows are developed based primarily on management's assumptions relating to the specific community. The significant assumptions used to evaluate the recoverability of assets include: the timing of development and/or marketing phases; projected sales price and sales pace of each existing or planned community; the estimated land development, home construction, and selling costs of the community; overall market supply and demand; the local market; and competitive conditions. Management reviews these assumptions on a quarterly basis. While we consider available information to determine what we believe to be our best estimates as of the end of a reporting period, these estimates are subject to change in future reporting periods as facts and circumstances change. We believe the most critical assumptions in the Company's cash flow models are projected absorption pace for home sales, sales prices, and costs to build and deliver homes on a community by community basis.

In order to estimate the assumed absorption pace for home sales included in the Company's cash flow models, the Company analyzes the historical absorption pace in the community as well as other communities in the geographic area. In addition, the Company considers internal and external market studies and trends, which may include, but are not limited to, statistics on population demographics, unemployment rates, foreclosure sales, and availability of competing products in the geographic area where a community is located. When analyzing the Company's historical absorption pace for home sales and corresponding internal and external market studies, the Company places greater emphasis on more current metrics and trends such as the absorption pace realized in its most recent quarters and management's most current assessment of sales pace.

In order to estimate the sales prices included in its cash flow models, the Company considers the historical sales prices realized on homes it delivered in the community and other communities in the geographic area, as well as the sales

prices included in its current backlog for such communities. In addition, the Company considers internal and external market studies and trends, which may include, but are not limited to, statistics on sales prices in neighboring communities, which include the impact of short sales, if any, and sales prices on similar products in non-neighboring communities in the geographic area where the community is located. When analyzing its historical sales prices and corresponding market studies, the Company places greater emphasis on more current metrics and trends such as the sales prices realized in its most recent quarters and the sales prices in current backlog. Based upon this analysis, the Company sets a sales price for each house type in the community which it believes will achieve an acceptable gross margin and sales pace in the community. This price becomes the price published to the sales force for use in its sales efforts. The Company then considers the average of these published sales prices when estimating the future sales prices in its cash flow models.

In order to arrive at the Company's assumed costs to build and deliver homes, the Company generally assumes a cost structure reflecting contracts currently in place with its vendors and subcontractors, adjusted for any anticipated cost reduction initiatives or increases in cost structure. With respect to overhead included in the cash flow models, the Company uses forecasted rates included in the Company's annual budget adjusted for actual experience.

Future communities. If an indicator of impairment exists for raw land, land under development, or lots that management anticipates will be utilized for future homebuilding activities, the recoverability of assets is evaluated by comparing the carrying amount of the assets to the estimated future undiscounted cash flows expected to be generated by the assets based on home sales, consistent with the evaluations performed for operating communities discussed above.

For raw land, land under development, or lots that management intends to market for sale to a third party, but that do not meet all of the criteria to be classified as land held for sale as discussed below, the estimated fair value of the assets is determined based on either the estimated net sales proceeds expected to be realized on the sale of the assets or the estimated fair value determined using cash flow valuation techniques.

If the Company has not yet determined whether raw land, land under development, or lots will be utilized for future homebuilding activities or marketed for sale to a third party, the Company assesses the recoverability of the inventory using a probability-weighted approach.

Land held for sale. Land held for sale includes land that meets all of the following six criteria: (1) management, having the authority to approve the action, commits to a plan to sell the asset; (2) the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets; (3) an active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated; (4) the sale of the asset is probable, and transfer of the asset is expected to qualify for recognition as a completed sale, within one year; (5) the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (6) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The Company records land held for sale at the lower of its carrying value or estimated fair value less costs to sell. In performing the impairment evaluation for land held for sale, management considers, among other things, prices for land in recent comparable sales transactions, market analysis and recent bona fide offers received from outside third parties, as well as actual contracts. If the estimated fair value less the costs to sell an asset is less than the asset's current carrying value, the asset is written down to its estimated fair value less costs to sell.

Our quarterly assessments reflect management's best estimates. Due to the inherent uncertainties in management's estimates and uncertainties related to our operations and our industry as a whole as further discussed in "Item 1A Risk Factors" in Part I of our Annual Report on Form 10-K for the year ended December 31, 2010 and "Item 1A. Risk Factors" in Part II of our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011, we are unable to determine at this time if and to what extent continuing future impairments will occur.

Investment in Unconsolidated Limited Liability Companies. We invest in entities that acquire and develop land for distribution to us in connection with our homebuilding operations. In our judgment, we have determined that these entities generally do not meet the criteria of variable interest entities ("VIEs") because they have sufficient equity to finance their operations. We must use our judgment to determine if we have substantive control of these entities. If we were to determine that we have substantive control, we would be required to consolidate the entity. Factors considered in determining whether we have substantive control include risk and reward sharing, experience and financial condition of the other partners, voting rights, involvement in day-to-day capital and operating decisions, and continuing involvement. In the event an entity does not have sufficient equity to finance its operations, we would be required to use judgment to determine if we were the primary beneficiary of the VIE. We consider our accounting policies with respect to determining whether we are the primary beneficiary or have substantive control of the VIE to be critical accounting policies due to the judgment required. Based on the application of our accounting policies, these entities are accounted for by the equity method of accounting.

The Company evaluates its investment in unconsolidated limited liabilities companies (“Unconsolidated LLCs”) for potential impairment on a quarterly basis. If the fair value of the investment is less than the investment's carrying value and the Company has determined that the decline in value is other than temporary, the Company would write down the value of the investment to fair value. The determination of whether an investment's fair value is less than the carrying value requires management to make certain assumptions regarding the amount and timing of future contributions to the Unconsolidated LLC, the timing of distribution of lots to the Company from the Unconsolidated LLC, the projected fair value of the lots at the time of distribution to the Company, and the estimated proceeds from, and timing of, the sale of land or lots to third parties. In determining the fair value of investments in Unconsolidated LLCs, the Company evaluates the projected cash flows associated with each Unconsolidated LLC. As of September 30, 2011, the Company used a discount rate of 16% in determining the fair value of investments in Unconsolidated LLCs. In addition to the assumptions management must make to determine if the investment's fair value is less than the carrying value, management must also use judgment in determining whether the impairment is other than temporary. The factors management considers are: (1) the length of time and the extent to which the market value has been less than cost; (2) the financial condition and near-term prospects of the Company; and (3) the intent and ability of the Company to retain its investment in the Unconsolidated LLC for a period of time sufficient to allow for any anticipated recovery in market value. Because of the high degree of judgment

involved in developing these assumptions, it is possible that the Company may determine the investment is not impaired in the current period but, due to passage of time or change in market conditions leading to changes in assumptions, impairment could occur.

Guarantees and Indemnities. Guarantee and indemnity liabilities are established by charging the applicable line item in our Unaudited Condensed Consolidated Statements of Operations or our Unaudited Condensed Consolidated Balance Sheets, depending on the nature of the guarantee or indemnity, and crediting a liability. M/I Financial provides a limited-life guarantee on loans sold to certain third parties and estimates its actual liability related to the guarantee and any indemnities subsequently provided to the purchaser of the loans in lieu of loan repurchase based on historical loss experience. Actual future costs associated with loans guaranteed or indemnified could differ materially from our current estimated amounts. The Company has also provided certain other guarantees and indemnifications in connection with the purchase and development of land, including guarantees of the completion of land development. The Company estimates these liabilities based on the estimated cost of insurance coverage or estimated cost of acquiring a bond in the amount of the exposure. Actual future costs associated with these guarantees and indemnifications could differ materially from our current estimated amounts.

Warranty. Warranty accruals are established by charging cost of sales and crediting a warranty accrual for each home closed. The amounts charged are estimated by management to be adequate to cover expected warranty-related costs for materials and outside labor required under the Company's warranty programs. Accruals are recorded for warranties under the following warranty programs:

• Home Builder's Limited Warranty; and
• 30-year transferable structural warranty – effective for homes closed after April 24, 1998.

The warranty accruals for the Home Builder's Limited Warranty are established as a percentage of average sales price, and the structural warranty accruals are established on a per unit basis. Our warranty accruals are based upon historical experience by geographic area and recent trends. Factors that are given consideration in determining the accruals include: (1) the historical range of amounts paid per average sales price on a home; (2) type and mix of amenity packages added to the home; (3) any warranty expenditures not considered to be normal and recurring; (4) timing of payments; (5) improvements in quality of construction expected to impact future warranty expenditures; (6) actuarial estimates, which reflect both Company and industry data; and (7) conditions that may affect certain projects and require a different percentage of average sales price for those specific projects.

Changes in estimates for warranties occur due to changes in the historical payment experience and differences between the actual payment pattern experienced during the period and the historical payment pattern used in our evaluation of the warranty accrual balance at the end of each quarter. Actual future warranty costs could differ from our current estimated amount.

Self-insurance. Self-insurance accruals are made for estimated liabilities associated with employee health care, workers' compensation, and general liability insurance. For 2011, our self-insurance limit for employee health care was \$250,000 per claim per year, with stop loss insurance covering amounts in excess of \$250,000. Our workers' compensation claims are insured by a third party and carry a deductible of \$250,000 per claim, with maximum incurred losses not to exceed \$425,000, except for claims made in the state of Ohio where the Company is self-insured. Our self-insurance limit for Ohio workers' compensation is \$450,000 per claim, with stop loss insurance covering all amounts in excess of this limit. The accruals related to employee health care and workers' compensation are based on historical experience and open case reserves. Our general liability claims are insured by a third party; the Company generally has a \$7.5 million deductible per occurrence and a \$30.0 million deductible in the aggregate, with lower deductibles for certain types of claims. The Company records a general liability accrual for claims falling below the Company's deductible. The general liability accrual estimate is based on an actuarial evaluation of our past history

of claims, other industry specific factors and specific event analysis. The Company recorded expenses totaling \$2.2 million and \$0.2 million, respectively, for all self-insured and general liability claims during the nine months ended September 30, 2011 and 2010. For the nine months ended September 30, 2010, this included \$0.6 million of charges related to defective imported drywall, as well as the \$2.4 million settlement received in the third quarter of 2010 related to defective imported drywall. Because of the high degree of judgment required in determining these estimated accrual amounts, actual future costs could differ from our current estimated amounts. Please see Note 9 to our Unaudited Condensed Consolidated Financial Statements for more information regarding expenses relating to defective drywall.

Stock-Based Compensation. We record stock-based compensation by recognizing compensation expense at an amount equal to the fair value of share-based awards granted under compensation arrangements. We calculate the fair value of stock options using the Black-Scholes option pricing model. Determining the fair value of share-based awards at the grant date requires judgment in developing assumptions, which involve a number of variables. These variables include, but are not limited to, the expected stock price volatility over the term of the awards and the expected term of the awards. In addition, when we first issue share-based awards, we also use judgment in estimating the number of share-based awards that are expected to be forfeited.

Derivative Financial Instruments. To meet financing needs of our home-buying customers, M/I Financial is party to interest rate lock commitments (“IRLCs”), which are extended to customers who have applied for a mortgage loan and meet certain defined credit and underwriting criteria. These IRLCs are considered derivative financial instruments. M/I Financial manages interest rate risk related to its IRLCs and mortgage loans held for sale through the use of forward sales of mortgage-backed securities (“FMBSs”), the use of best-efforts whole loan delivery commitments, and the occasional purchase of options on FMBSs in accordance with Company policy. These FMBSs, options on FMBSs, and IRLCs covered by FMBSs are considered non-designated derivatives. In determining the fair value of IRLCs, M/I Financial considers the value of the resulting loan if sold in the secondary market. The fair value includes the price that the loan is expected to be sold for along with the value of servicing release premiums. Subsequent to inception, M/I Financial estimates an updated fair value, which is compared to the initial fair value. In addition, M/I Financial uses fallout estimates, which fluctuate based on the rate of the IRLC in relation to current rates. Gains or losses are recorded in financial services revenue. Certain IRLCs and mortgage loans held for sale are committed to third party investors through the use of best-efforts whole loan delivery commitments. The IRLCs and related best-efforts whole loan delivery commitments, which generally are highly effective from an economic standpoint, are considered non-designated derivatives and are accounted for at fair value, with gains or losses recorded in financial services revenue. Under the terms of these best-efforts whole loan delivery commitments covering mortgage loans held for sale, the specific committed mortgage loans held for sale are identified and matched to specific delivery commitments on a loan-by-loan basis. The delivery commitments and loans held for sale are recorded at fair value, with changes in fair value recorded in financial services revenue.

Income Taxes—Valuation Allowance. A valuation allowance is recorded against a deferred tax asset if, based on the weight of available evidence, it is more-likely-than-not (a likelihood of more than 50%) that some portion or the entire deferred tax asset will not be realized. The realization of a deferred tax asset ultimately depends on the existence of sufficient taxable income in either the carryback or carryforward periods under applicable tax law. The four sources of taxable income to be considered in determining whether a valuation allowance is required are:

- Future reversals of existing taxable temporary differences (i.e., offset gross deferred tax assets against gross deferred tax liabilities);
- taxable income in prior carryback years;
- tax planning strategies; and
- future taxable income, exclusive of reversing temporary differences and carryforwards.

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

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

Examples of negative evidence may include:

- The existence of “cumulative losses” (defined as a pre-tax cumulative loss for the business cycle – in our case four years);
- an expectation of being in a cumulative loss position in a future reporting period;
- a carryback or carryforward period that is so brief that it would limit the realization of tax benefits;

• a history of operating loss or tax credit carryforwards expiring unused; and
• unsettled circumstances that, if unfavorably resolved, would adversely affect future operations and profit levels on a continuing basis.

The Company evaluates its deferred tax assets, including net operating losses, to determine if a valuation allowance is required. We evaluate this based on the consideration of all available evidence using a “more likely than not” standard. In making such judgments, significant weight is given to evidence that can be objectively verified. A cumulative loss in recent years is significant negative evidence in considering whether deferred tax assets are realizable, and also restricts the amount of reliance on projections of future taxable income to support the recovery of deferred tax assets.

The Company's current and prior year losses present the most significant negative evidence as to whether the Company needs to reduce its deferred tax assets with a valuation allowance. We are currently in excess of a four-year cumulative pre-tax loss position. We currently believe the cumulative weight of the negative evidence exceeds that of the positive evidence and, as a result, it is more likely than not that we will not be able to utilize all of our deferred tax assets. Therefore, as of September 30, 2011, the Company had a total valuation allowance of \$139.5 million

recorded. The accounting for deferred taxes is based upon an estimate of future results. Differences between the anticipated and actual outcomes of these future tax consequences could have a material impact on the Company's consolidated results of operations or financial position.

Future adjustments to our deferred tax asset valuation allowance will be determined based upon changes in the expected realization of our net deferred tax assets. Excluding the carryback of \$0.6 million of certain 2011 expenses to 2001, we do not expect to record any additional tax benefits in 2011 as the carryback has been exhausted. Additionally, our determination with respect to recording a valuation allowance may be further impacted by, among other things:

- Additional inventory impairments;
- Additional pre-tax operating losses;
- The utilization of tax planning strategies that could accelerate the realization of certain deferred tax assets; or
- Changes in relevant tax law.

Additionally, due to the considerable estimates utilized in establishing a valuation allowance and the potential for changes in facts and circumstances in future reporting periods, it is reasonably possible that we will be required to either increase or decrease our valuation allowance in future reporting periods.

Income Taxes—Tax Positions. The Company evaluates tax positions that have been taken or are expected to be taken in tax returns, and records the associated tax benefit or liability. Tax positions are recognized when it is more-likely-than-not that the tax position would be sustained upon examination. The tax position is measured at the largest amount of benefit that has a greater than 50% likelihood of being realized upon settlement. Interest and penalties for all uncertain tax positions are recorded within Provision (benefit) for income taxes in the Company's Unaudited Condensed Consolidated Statements of Operations.

Income Tax Receivable. Income tax receivable consists of tax refunds that the Company expects to receive within one year. As of September 30, 2011 and December 31, 2010, the Company had \$1.3 million and \$1.0 million, respectively of income tax receivable.

RESULTS OF OPERATIONS

The Company's segment information is presented on the basis that the chief operating decision makers use in evaluating segment performance. The Company's chief operating decision makers evaluate the Company's performance in various ways, including: (1) the results of our eleven individual homebuilding operating segments and the results of our financial services operations; (2) the results of our three homebuilding regions; and (3) our consolidated financial results. We have determined our reportable segments as follows: Midwest homebuilding, Southern homebuilding, Mid-Atlantic homebuilding and financial services operations. The homebuilding operating segments that are included within each reportable segment have similar operations and exhibit similar economic characteristics. Our homebuilding operations include the acquisition and development of land, the sale and construction of single-family attached and detached homes, and the occasional sale of lots to third parties. The homebuilding operating segments that comprise each of our reportable segments are as follows:

Midwest	Southern	Mid-Atlantic
Columbus, Ohio	Tampa, Florida	Washington, D.C.
Cincinnati, Ohio	Orlando, Florida	Charlotte, North Carolina
Indianapolis, Indiana	Houston, Texas ⁽¹⁾	Raleigh, North Carolina
Chicago, Illinois	San Antonio, Texas ⁽²⁾	

⁽¹⁾ We announced our entry into the Houston, Texas market in March 2010, and we commenced home construction in Houston during the fourth quarter of 2010.

⁽²⁾ In April 2011, we acquired the assets of TriStone Homes, a privately-held homebuilder based in San Antonio, Texas.

Our financial services operations include the origination and sale of mortgage loans and title services primarily for purchasers of the Company's homes.

Results and Trends for the Three and Nine Months Ended September 30, 2011

Overview

During the first nine months of 2011, we and the homebuilding industry continued to face challenging operating conditions. Uncertainty about the strength and future of the U.S. economy in general, and the homebuilding industry in particular, has created very cautious consumer sentiment throughout the homebuilding industry. We believe that this consumer anxiety, coupled with tougher overall lending standards, kept many would-be homebuyers on the sidelines, and as a result, our spring selling season was not as robust as we and many in our industry had hoped it would be. As a result of lower overall sales and deliveries experienced during the first half of 2011, we made decisions to lower sales prices and offer increased sales incentives in some of our legacy communities to help improve the sales pace in those communities, which resulted in higher impairment charges year to date when compared to 2010, along with a 7% decrease in the average sales price of homes delivered in the third quarter of 2011 compared to the third quarter of 2010. Our efforts resulted in a 20% increase in our new contracts, with the majority of that increase occurring in our Southern and Mid-Atlantic regions. We also had a 13% increase in homes delivered for the three months ended September 30, 2011. We continue to be encouraged by a number of performance metrics, including an increase of 16% in our backlog units at September 30, 2011 when compared to a year ago, an 18% increase in the overall sales value of our backlog at September 30, 2011 when compared to a year ago, and 90 and 160 basis point sequential improvements in our adjusted operating gross margin in 2011's third quarter compared to 2011's second and first quarter, respectively.

While there are signs of stability in certain markets, it is difficult to predict when and at what rate these negative conditions will improve, or when the homebuilding industry will experience a sustained recovery. With these conditions in mind, we continue to focus on the following primary strategic business objectives:

- Maintaining a strong balance sheet;
- emphasizing customer service, product design, and premier locations;
- improving affordability through design changes and other cost reduction efforts;
- strategically investing in new communities and/or markets; and
- meaningful presence in our markets.

In particular, during the second quarter of 2011, we expanded our geographic footprint by completing our acquisition of the assets of TriStone Homes, a privately-held homebuilder based in San Antonio, Texas. We believe San Antonio is a dynamic, growing market and one that should have a positive impact on our operations. In addition, we continued to invest in new communities

that are helping us in our effort to restore our profitability when and as housing markets improve. During the first nine months of 2011, we opened 37 new communities and closed 27 communities. During the third quarter of 2011, homes delivered in our new communities represented 60% of total homes delivered versus 33% in 2010's third quarter. We believe our strategy and market position aid in our efforts in returning to profitability.

For the quarter ended September 30, 2011, total revenue increased \$6.0 million (4%), from \$135.6 million in the third quarter of 2010 to \$141.6 million in the third quarter of 2011. This increase was attributable to a 13% increase in homes delivered, from 515 in the third quarter of 2010 to 582 in the third quarter of 2011, which was partially offset by a decrease in the average sales price of homes delivered, from \$257,000 in 2010 to \$238,000 in 2011. Revenue in our financial services segment decreased 19%, from \$3.6 million for the quarter ended September 30, 2010 to \$2.9 million for the quarter ended September 30, 2011, despite a 9% increase in the number of loans originated, from 399 in the third quarter of 2010 to 435 in the third quarter of 2011.

Loss before income taxes increased \$3.1 million, from \$1.7 million for the three months ended September 30, 2010 to \$4.8 million for the three months ended September 30, 2011. The \$3.1 million increase was primarily due to the \$2.4 million settlement received during the third quarter of 2010 related to defective imported drywall, along with increased interest costs due to our issuance of \$200 million aggregate principal amount of 8.625% Senior Notes due 2018 (the "2018 Senior Notes") in the fourth quarter of 2010. During the third quarter of 2011, the Company incurred charges totaling \$1.7 million related to the impairment of inventory and investment in Unconsolidated LLCs, compared to \$1.8 million of like charges in the third quarter of 2010. Our adjusted operating gross margin percentage for the three months ended September 30, 2011 was 17.9% compared to 18.1% for the three months ended September 30, 2010. During the third quarter of 2011, we spent \$1.6 million on selling, general and administrative expenses related to our entry into our two Texas markets. The Company had an adjusted pre-tax loss from operations of \$3.0 million for the quarter ended September 30, 2011, an increase of \$0.8 million over 2010's third quarter adjusted pre-tax loss from operations of \$2.2 million. Please see the table set forth below which reconciles the non-GAAP financial measures of adjusted operating gross margin and adjusted pre-tax loss from operations to their respective most directly comparable GAAP financial measures, gross margin, and loss from operations before income taxes.

For the nine months ended September 30, 2011, total revenue decreased \$61.8 million (14%), from \$451.4 million in the first nine months of 2010 to \$389.6 million in the first nine months of 2011. This decrease was attributable to a 10% decrease in homes delivered, from 1,784 in the first nine months of 2010 to 1,611 in the first nine months of 2011, as well as a decrease in the average sales price of homes delivered, from \$247,000 in the first nine months of 2010 to \$235,000 in the first nine months of 2011. Our decline in homes delivered largely reflects our relatively low backlog level at the beginning of 2011, reflecting the decline in new contracts we experienced in the latter half of 2010 following the April 30, 2010 expiration of the federal homebuyer tax credit, along with lower year to date sales in 2011. Revenue in our financial services segment decreased 13%, from \$10.8 million for the nine months ended September 30, 2010 to \$9.4 million for the nine months ended September 30, 2011, primarily due to a 13% decrease in the number of loans originated, from 1,402 in the first nine months of 2010 to 1,217 in the first nine months of 2011.

Loss before income taxes increased \$15.7 million, from \$15.1 million for the nine months ended September 30, 2010 to \$30.8 million for the nine months ended September 30, 2011. The \$15.7 million increase was primarily due to the decrease in revenue described above, increased impairment charges, the \$2.4 million settlement received during the third quarter of 2010 related to defective imported drywall, and increased interest costs due to our issuance of the 2018 Senior Notes in the fourth quarter of 2010. These factors were partially offset by lower selling, general and administrative expenses. During the first half of 2011, the Company incurred charges totaling \$18.0 million related to the impairment of inventory and investment in Unconsolidated LLCs and \$0.4 million of abandoned land transaction costs, compared to \$11.6 million of like charges in the first nine months of 2010. The \$6.8 million increase in these charges was due to increased impairment charges in some of our legacy and close-out communities, management's

decision to decrease sales prices in various communities within our Midwest and Southern regions to help improve sales pace and meet competition, as well as increased sales incentives offered and a change in management's development plans for certain legacy raw land. Our adjusted operating gross margin percentage for the nine months ended September 30, 2011 was 17.1% compared to 17.0% for the nine months ended September 30, 2010. Selling expenses decreased \$5.9 million, from \$36.5 million for the nine months ended September 30, 2010 to \$30.6 million for the nine months ended September 30, 2011, primarily due to (1) a \$2.7 million reduction in variable selling expenses as a result of fewer closings; (2) a \$1.4 million decrease in advertising expenses; (3) a decrease of \$1.0 million in expenses related to our model homes; (4) a \$0.5 million decrease in miscellaneous other expenses; and (5) a \$0.3 million reduction in payroll and incentive related expenses. General and administrative expenses decreased \$1.5 million from the first nine months of 2010 to the first months of 2011, primarily due to (1) a decrease of \$0.7 million in miscellaneous expenses; (2) a \$0.6 million decrease in land related expenses, including abandoned land transaction costs; and (3) a decrease of \$0.2 million in professional fees. During the nine months ended September 30, 2011, we spent \$3.6 million on selling, general and administrative expenses related to our entry into our two Texas markets. The Company had an adjusted pre-tax loss from

operations of \$12.4 million for the nine months ended September 30, 2011, an increase of \$7.1 million over the \$5.3 million adjusted pre-tax loss in the first nine months of 2010. Please see the table set forth below which reconciles the non-GAAP financial measures of adjusted operating gross margin and adjusted pre-tax loss from operations to their respective most directly comparable GAAP financial measures, gross margin, and loss from operations before income taxes.

New contracts for the quarter ended September 30, 2011 were 587, an increase of 20% compared to 489 for the quarter ended September 30, 2010. For the nine months ended September 30, 2011, new contracts were 1,876, a 1% increase from 1,856 new contracts during the nine months ended September 30, 2010. Our cancellation rate decreased to 19% for the quarter ended September 30, 2011 compared to 22% for the quarter ended September 30, 2010. For the nine months ended September 30, 2011, our cancellation rate remained consistent with the nine months ended September 30, 2010 at 18%. Our homes in backlog increased 16%, from 722 units at September 30, 2010 to 838 units at September 30, 2011, which was primarily the result of the 20% increase in our new contracts in the third quarter of 2011 described above.

Our mortgage company's capture rate increased from 82% for the three months ended September 30, 2010 to 84% for the three months ended September 30, 2011, and from 84% for the nine months ended September 30, 2010 to 85% for the nine months ended September 30, 2011. Capture rate is influenced by financing availability and can fluctuate up or down from period to period.

As a result of our net loss during the nine months ended September 30, 2011, we generated deferred tax assets of \$11.6 million and recorded a non-cash valuation allowance against the entire amount of deferred tax assets generated.

The following table reconciles our adjusted operating gross margin and adjusted pre-tax loss from operations (each of which constitutes a non-GAAP financial measure) for the three and nine months ended September 30, 2011 and 2010 to the GAAP financial measures of gross margin and loss from operations before income taxes, respectively:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Gross margin	\$23,658	\$25,154	\$48,739	\$67,166
Add:				
Impairment of inventory and investment in Unconsolidated LLCs	1,697	1,796	18,013	11,206
Imported drywall charges	—	(2,410)	—	(1,810)
Adjusted operating gross margin	\$25,355	\$24,540	\$66,752	\$76,562
Loss from operations before income taxes	\$(4,835)	\$(1,681)	\$(30,830)	\$(15,089)
Add:				
Impairment of inventory and investment in Unconsolidated LLCs and abandoned land transaction costs	1,837	1,936	18,453	11,603
Imported drywall charges	—	(2,410)	—	(1,810)
Adjusted pre-tax loss from operations	\$(2,998)	\$(2,155)	\$(12,377)	\$(5,296)

Adjusted operating gross margin and adjusted pre-tax loss from operations are non-GAAP financial measures. Management finds these measures to be useful in evaluating the Company's performance because they disclose the financial results generated from homes the Company actually delivered during the period, as the asset impairments and certain other write-offs relate, in part, to inventory that was not delivered during the period. They also assist the Company's management in making strategic decisions regarding the Company's future operations. The Company believes investors will also find these to be important and useful because they disclose profitability measures that can be compared to a prior period without regard to the variability of asset impairments and certain other write-offs. In

addition, to the extent that the Company's competitors provide similar information, disclosure of these measures helps readers of the Company's financial statements compare the Company's profits to the profits of its competitors with regard to the homes they deliver in the same period. Because these measures are not calculated in accordance with GAAP, they may not be completely comparable to similarly titled measures of the Company's competitors due to potential differences in methods of calculation and charges being excluded. Due to the significance of the GAAP components excluded, such measures should not be considered in isolation or as an alternative to operating performance measures prescribed by GAAP.

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The following table shows, by segment, revenue, operating (loss) income and interest expense for the three and nine months ended September 30, 2011 and 2010, as well as the Company's loss before income taxes for such periods:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue:				
Midwest homebuilding	\$58,941	\$63,757	\$168,291	\$218,392
Southern homebuilding	35,281	16,217	84,117	66,910
Mid-Atlantic homebuilding	44,530	52,029	127,863	155,300
Financial services	2,872	3,606	9,367	10,800
Total revenue	\$141,624	\$135,609	\$389,638	\$451,402
Operating (loss) income:				
Midwest homebuilding (a)	\$1,364	\$837	\$(6,925)	\$1,012
Southern homebuilding (a)	(203)	(79)	(6,895)	(2,363)
Mid-Atlantic homebuilding (a)	1,909	3,916	4,959	4,664
Financial services	969	1,753	4,203	5,104
Less: Corporate selling, general and administrative expenses	(5,490)	(6,156)	(15,288)	(17,334)
Total operating (loss) income	\$(1,451)	\$271	\$(19,946)	\$(8,917)
Interest expense:				
Midwest homebuilding	\$1,291	\$527	\$4,612	\$2,346
Southern homebuilding	768	351	1,965	1,047
Mid-Atlantic homebuilding	1,122	840	3,663	2,175
Financial services	203	234	644	604
Total interest expense	\$3,384	\$1,952	\$10,884	\$6,172
Loss before income taxes	\$(4,835)	\$(1,681)	\$(30,830)	\$(15,089)

For the three months ended September 30, 2011 and 2010, the impact of charges relating to the impairment of inventory and investment in Unconsolidated LLCs and the write-off of abandoned land transaction costs was \$1.8 million and \$1.9 million, respectively. These charges reduced operating income by \$1.2 million and \$0.1 million in (a) the Midwest region and \$0.6 million and \$1.6 million in the Southern region for the three months ended September 30, 2011 and 2010, respectively, and \$0.2 million in the Mid-Atlantic region for the three months ended September 30, 2010. There were no impairment charges in our Mid-Atlantic region for the three months ended September 30, 2011.

For the nine months ended September 30, 2011 and 2010, the impact of charges relating to the impairment of inventory and investment in unconsolidated LLCs and the write-off of abandoned land transaction costs was \$18.5 million and \$11.6 million, respectively. These charges reduced operating income by \$11.6 million and \$3.2 million in the Midwest region, \$6.6 million and \$3.8 million in the Southern region and \$0.3 million and \$4.6 million in the Mid-Atlantic region for the nine months ended September 30, 2011 and 2010, respectively.

The following tables show total assets by segment:

(In thousands)	At September 30, 2011				
	Midwest	Southern	Mid-Atlantic	Corporate, Financial Services and Unallocated	Total

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Deposits on real estate under option or contract	\$499	\$1,474	\$1,107	\$—	\$3,080
Inventory (a)	206,217	92,912	189,152	—	488,281
Investments in unconsolidated entities	5,149	5,107	—	—	10,256
Other assets	4,472	2,333	3,417	149,886	160,108
Total assets	\$216,337	\$101,826	\$193,676	\$149,886	\$661,725

At December 31, 2010

(In thousands)	Midwest	Southern	Mid-Atlantic	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	\$1,027	\$85	\$853	\$—	\$1,965
Inventory (a)	212,159	69,652	167,161	—	448,972
Investments in unconsolidated entities	5,929	4,660	—	—	10,589
Other assets	5,187	1,719	4,283	189,179	200,368
Total assets	\$224,302	\$76,116	\$172,297	\$189,179	\$661,894

Inventory includes single-family lots, land and land development costs; land held for sale; homes under (a) construction; model homes and furnishings; community development district infrastructure; and consolidated inventory not owned.

Seasonality

Typically, our homebuilding operations experience significant seasonality and quarter-to-quarter variability in homebuilding activity levels. In general, homes delivered increase substantially in the second half of the year compared to the first half of the year. We believe that this seasonality reflects the tendency of homebuyers to shop for a new home in the spring with the goal of closing in the fall or winter, as well as the scheduling of construction to accommodate seasonal weather conditions. Our financial services operations also experience seasonality because loan originations correspond with the delivery of homes in our homebuilding operations.

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Reportable Segments

The following table presents, by reportable segment, selected financial information for the three and nine months ended September 30, 2011 and 2010:

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Midwest Region				
Homes delivered	254	272	741	967
Average sales price per home delivered	\$232	\$234	\$227	\$226
Revenue homes	\$58,941	\$63,757	\$168,291	\$218,392
Operating income (loss) homes (a)	\$1,364	\$837	\$(6,925)	\$1,012
New contracts, net	251	248	846	994
Backlog at end of period	441	444	441	444
Average sales price of homes in backlog	\$253	\$248	\$253	\$248
Aggregate sales value of homes in backlog	\$111,538	\$110,000	\$111,538	\$110,000
Number of new communities	4	4	10	19
Number of active communities	60	63	60	63
Southern Region				
Homes delivered	162	79	395	323
Average sales price per home delivered	\$217	\$206	\$210	\$208
Revenue homes	\$35,126	\$16,217	\$83,007	\$66,824
Revenue third party land sales	\$155	\$—	\$1,110	\$86
Operating loss homes (a)	\$(206)	\$(79)	\$(6,403)	\$(2,371)
Operating income (loss) land (a)	\$3	\$—	\$(492)	\$8
New contracts, net	149	93	451	365
Backlog at end of period	184	97	184	97
Average sales price of homes in backlog	\$230	\$221	\$230	\$221
Aggregate sales value of homes in backlog	\$42,270	\$21,000	\$42,270	\$21,000
Number of new communities	3	1	16	5
Number of active communities	25	21	25	21
Mid-Atlantic Region				
Homes delivered	166	164	475	494
Average sales price per home delivered	\$268	\$317	\$269	\$315
Revenue homes	\$44,530	\$52,029	\$127,863	\$155,300
Operating income homes (a)	\$1,909	\$3,916	\$4,959	\$4,664
New contracts, net	187	148	579	497
Backlog at end of period	213	181	213	181
Average sales price of homes in backlog	\$324	\$315	\$324	\$315
Aggregate sales value of homes in backlog	\$68,930	\$57,000	\$68,930	\$57,000
Number of new communities	4	4	11	10
Number of active communities	35	24	35	24
Total Homebuilding Regions				
Homes delivered	582	515	1,611	1,784
Average sales price per home delivered	\$238	\$257	\$235	\$247
Revenue homes	\$138,597	\$132,003	\$379,161	\$440,516
Revenue third party land sales	\$155	\$—	\$1,110	\$86
Operating income (loss) homes (a)	\$3,067	\$4,674	\$(8,369)	\$3,305
Operating income (loss) land (a)	\$3	\$—	\$(492)	\$8

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New contracts, net	587	489	1,876	1,856
Backlog at end of period	838	722	838	722
Average sales price of homes in backlog	\$266	\$261	\$266	\$261
Aggregate sales value of homes in backlog	\$222,738	\$188,000	\$222,738	\$188,000
Number of new communities	11	9	37	34
Number of active communities	120	108	120	108

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(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Financial Services				
Number of loans originated	435	399	1,217	1,402
Value of loans originated	\$92,585	\$89,072	\$256,708	\$301,419
Revenue	\$2,872	\$3,606	\$9,367	\$10,800
Selling, general and administrative expenses	\$1,903	\$1,853	\$5,164	\$5,696
Interest expense	\$203	\$234	\$644	\$604
Income before income taxes	\$766	\$1,519	\$3,559	\$4,500

(a) Amount shown includes impairment of inventory and investment in Unconsolidated LLCs and abandoned land transaction costs for the three and nine months ended September 30, 2011 and 2010 as follows:

(Dollars in thousands)	Three Months		Nine Months	
	Ended September		Ended September	
	30,	30,	30,	30,
	2011	2010	2011	2010
Midwest:				
Homes	\$1,224	\$146	\$11,585	\$3,207
Land	—	—	—	—
	1,224	146	11,585	3,207
Southern:				
Homes	613	1,639	6,020	3,812
Land	—	—	590	—
	613	1,639	6,610	3,812
Mid-Atlantic:				
Homes	—	151	258	4,584
Land	—	—	—	—
	—	151	258	4,584
Total				
Homes	1,837	1,936	17,863	11,603
Land	—	—	590	—
	\$1,837	\$1,936	\$18,453	\$11,603

A home is included in “new contracts” when our standard sales contract is executed. “Homes delivered” represents homes for which the closing of the sale has occurred. “Backlog” represents homes for which the standard sales contract has been executed, but which are not included in homes delivered because closings for these homes have not yet occurred as of the end of the period specified.

Cancellation Rates

The following table sets forth the cancellation rates for each of our homebuilding segments for the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended				Nine Months Ended			
	September 30,		September 30,		September 30,		September 30,	
	2011	2010	2011	2010	2011	2010	2011	2010
Midwest	21.3	% 26.0	% 20.9	% 22.3	%	%	%	%
Southern	19.5	% 16.2	% 18.6	% 12.0	%	%	%	%
Mid-Atlantic	15.8	% 17.3	% 14.1	% 13.9	%	%	%	%

Total cancellation rate	19.1	%	21.8	%	18.3	%	18.3	%
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Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010

Midwest Region. For the three months ended September 30, 2011, homebuilding revenue in our Midwest region decreased \$4.8 million, from \$63.7 million in the third quarter of 2010 to \$58.9 million in the third quarter of 2011. This decrease was primarily the result of a 7% decrease in homes delivered, from 272 in the third quarter of 2010 to 254 in the third quarter of 2011. Our decline in homes delivered largely reflects our relatively low backlog level at the end of the first quarter of 2011, reflecting the decline in new contracts we experienced in the latter half of 2010 and the first half of 2011 following the April 30, 2010 expiration of the federal homebuyer tax credit. The decrease in revenue was also the result of a slight decrease in the average sales price of the homes delivered in our Midwest region, from \$234,000 in the third quarter of 2010 to \$232,000 in the third quarter of 2011.

As a result of lower overall sales and deliveries, we made decisions to lower sales prices and offer increased sales incentives in some of our legacy communities to help improve the sales pace in those communities, which resulted in higher impairment charges during the third quarter of 2011 compared to the third quarter of 2010. The increase in impairment charges was also due to management's changes in the development plans for some of our legacy raw land. For the three months ended September 30, 2011, there were \$1.1 million of impairment charges in our Midwest region, compared to \$0.1 million of impairment charges for the three months ended September 30, 2010. Excluding these impairment charges, our adjusted operating gross margin percentage was 15.9% for the three months ended September 30, 2011 and 12.8% for the three months ended September 30, 2010. The increase in adjusted operating gross margin percentage was primarily the result of an increase in new communities, where we typically experience higher gross margins compared to our legacy communities. For the third quarter of 2011, we opened four new communities in our Midwest region, which was the same amount of communities opened during the third quarter of 2010. For the three months ended September 30, 2011, 45% of the homes delivered in our Midwest region were in new communities, compared to 26% of our homes delivered during the three months ended September 30, 2010. Our Midwest region had operating income of \$1.4 million for the three months ended September 30, 2011, a \$0.6 million increase from 2010's third quarter operating income of \$0.8 million. The \$0.6 million increase in operating income was primarily the result of a \$0.3 million reduction in our selling, general and administrative expenses, from \$7.1 million for the quarter ended September 30, 2010 to \$6.8 million for the quarter ended September 30, 2011. This increase was primarily the result of a decrease in variable selling expenses, advertising expenses and expenses related to our model homes. New contracts in our Midwest region, for the three months ended September 30, 2011, were 251 compared to 248 new contracts during the three months ended September 30, 2010. Our third quarter 2011 monthly absorption rate in our Midwest region was 1.4 per community, compared to 1.3 per community in the third quarter of 2010.

Southern Region. For the three months ended September 30, 2011, homebuilding revenue in our Southern region increased \$19.1 million, from \$16.2 million in the third quarter of 2010 to \$35.3 million in the third quarter of 2011. This increase was primarily the result of an increase in the number of homes delivered, from 79 for the quarter ended September 30, 2010 to 162 for the quarter ended September 30, 2011, along with an increase in the average sales price of homes delivered from \$206,000 in the third quarter of 2010 to \$217,000 in the third quarter of 2011. Our increase in homes delivered was the result of our entry into the San Antonio market during the second quarter of 2011. Operating loss in our Southern region was \$0.2 million in the third quarter of 2011, compared to \$0.1 million in the third quarter of 2010. Selling, general and administrative expenses increased \$1.6 million in the third quarter of 2011. The increase is primarily due to \$1.6 million of additional spend related to our entry into our two Texas markets in 2011's third quarter when compared to 2010's third quarter. For the three months ended September 30, 2011, there were \$0.6 million of impairment charges in our Southern region, compared to \$1.5 million of impairment charges for the three months ended September 30, 2010. Excluding these impairment charges, our adjusted operating gross margin percentage was 15.3% for the three months ended September 30, 2011 and 15.0% for the three months ended September 30, 2010 (which also excludes a \$2.4 million settlement the company received in the third quarter of 2010 related to defective imported drywall). During the third quarter of 2011, we opened three new communities in our Southern region compared to one new community during the third quarter of 2010. Overall, we are experiencing higher gross margins in our new communities than in our legacy communities. For the three months ended September 30, 2011, 67% of the homes delivered in our Southern region were in new communities, compared to 29% of our homes delivered during the three months ended September 30, 2010. New contracts in our Southern region increased 60%, from 93 in the third quarter of 2010 to 149 in the third quarter of 2011. Our third quarter 2011 monthly absorption rate in our Southern region was 2.0 per community, compared to 1.4 per community in the third quarter of 2010.

Mid-Atlantic Region. Homebuilding revenue in our Mid-Atlantic region decreased \$7.5 million (14%), from \$52.0 million for the three months ended September 30, 2010 to \$44.5 million for the three months ended September 30, 2011. This decrease was primarily the result of a 15% decrease in the average sales price of homes delivered, from

\$317,000 for the three months ended September 30, 2010 to \$268,000 for the three months ended September 30, 2011, which was partially offset by a slight increase in homes delivered, from 164 in the third quarter of 2010 to 166 in the third quarter of 2011. The decrease in the average sales price of homes delivered was primarily due to changes in our product mix of homes delivered from the third quarter of 2010 in certain of our Mid-Atlantic markets. Our Mid-Atlantic region had operating income of \$1.9 million for the three months ended September 30, 2011, a \$2.0 million decrease from third quarter 2010's operating income of \$3.9 million. This decrease was primarily due to the decrease in revenue described above, partially offset by a decrease in impairment charges and lower selling, general and administrative expenses. Our gross margin percentage for the three months ended September 30, 2011 was 17.4% compared to an adjusted operating gross margin percentage (excluding impairment charges of \$0.1 million) for the three months ended September 30, 2010 of 19.9%. The 2.5% decrease in gross margin was primarily the result of changes in our product mix of homes delivered in certain of our Mid-Atlantic markets. During the third quarter of 2011, we opened four new communities in our Mid-Atlantic region which was the same number of new communities opened during the third quarter of 2010. For the three months ended September 30, 2011, 78% of the homes delivered in our Mid-Atlantic region were in new communities, compared to 45% of our homes delivered during the three months ended September 30, 2010. Selling, general and administrative expenses decreased \$0.5 million in the third quarter of 2011 compared to the third quarter of 2010, primarily due to a decrease in variable selling expenses and advertising expenses, which were partially offset by an increase in payroll related expenses. For the third quarter of

2011, there was a 26% increase in new contracts from 148 in the third quarter of 2010 to 187 in the third quarter of 2011. Our third quarter 2011 monthly absorption rate in our Mid-Atlantic region was 1.8 per community, compared to 2.1 per community in the third quarter of 2010.

Financial Services. For the three months ended September 30, 2011, revenue from our mortgage and title operations decreased \$0.7 million (19%), from \$3.6 million in the third quarter of 2010 to \$2.9 million in the third quarter of 2011, primarily due a decrease in revenue from the sale of servicing rights for our mortgage loans along with additional reserves for investor put-back inquiries. Partially offsetting this decrease in servicing release revenue was a 9% increase in the number of loan originations. Selling, general and administrative expenses increased \$0.1 million for the quarter ended September 30, 2011 compared to the quarter ended September 30, 2010. We had a \$0.8 million decrease in operating income for the third quarter of 2011 compared to the third quarter of 2010, which was primarily due to the decrease in revenue discussed above.

At September 30, 2011, M/I Financial had mortgage operations in all of our markets except Houston, where we are just entering the mortgage services market. Approximately 84% of our homes delivered during the third quarter of 2011 that were financed were financed through M/I Financial, compared to 82% in the third quarter of 2010. Capture rate is influenced by financing availability and can fluctuate up or down from quarter to quarter.

Corporate Selling, General and Administrative Expenses. Corporate selling, general and administrative expenses decreased \$0.6 million (10%), from \$6.1 million in the third quarter of 2010 to \$5.5 million in the third quarter of 2011. The decrease was primarily due to a decrease of \$0.5 million in payroll related expenses and a \$0.1 million decrease in selling expenses.

Interest Expense - Net. Interest expense for the Company increased \$1.4 million, from \$2.0 million for the quarter ended September 30, 2010 to \$3.4 million for the quarter ended September 30, 2011. This increase was primarily due to the increase in our weighted average borrowing rate from 8.58% for the three months ended September 30, 2010 to 9.42% for the three months ended September 30, 2011, along with the increase in our weighted average borrowings from \$211.1 million in the third quarter of 2010 to \$262.9 million in the third quarter of 2011, due primarily to the issuance of our 2018 Senior Notes in the fourth quarter of 2010.

Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010

Midwest Region. For the nine months ended September 30, 2011, we had \$168.3 million of homebuilding revenue in our Midwest region, a decrease of \$50.1 million from the \$218.4 million of homebuilding revenue we had in the first nine months of 2010. This decrease was primarily the result of a 23% decrease in homes delivered, from 967 in the first nine months of 2010 to 741 in the first nine months of 2011, which was partially offset by a slight increase in the average sales price of homes delivered, from \$226,000 in the first nine months of 2010 to \$227,000 in the first nine months of 2011. Our decline in homes delivered largely reflects our relatively low backlog level at the beginning of 2011, reflecting the decline in new contracts we experienced in the latter eight months of 2010 following the April 30, 2010 expiration of the federal homebuyer tax credit. Our Midwest region had an operating loss of \$6.9 million for the nine months ended September 30, 2011, compared to operating income of \$1.0 million for the nine months ended September 30, 2010, primarily due to an increase in impairment charges as well as the decrease in revenue described above, partially offset by a decrease in selling, general and administrative expenses. For the nine months ended September 30, 2011, there were \$11.4 million of impairment charges in our Midwest region, compared to \$3.1 million of impairment charges for the nine months ended September 30, 2010. As a result of lower overall sales and deliveries during the first nine months of 2011, the Company's management made decisions to offer increased sales incentives in some of our legacy communities to help improve the sales pace in those communities, which resulted in higher impairment charges year to date 2011 when compared to the corresponding period in 2010. In addition, a portion of the increase in impairment charges was due to management's changes in the ultimate development plans for some of

our legacy raw land. Excluding these impairment charges, our adjusted operating gross margin percentage was 14.0% for the nine months ended September 30, 2011 and 12.8% for the nine months ended September 30, 2010. The increase in adjusted operating gross margin percentage was primarily the result of an increase in new communities, where we are typically experiencing higher gross margins than in our legacy communities. For the nine months ended September 30, 2011, 39% of the homes delivered in our Midwest region were in new communities, compared to 24% of our homes delivered during the nine months ended September 30, 2010. During the first nine months of 2011, we opened 10 new communities in our Midwest region compared to 19 new communities for the first nine months of 2010. Selling, general and administrative expenses decreased \$4.8 million, from \$23.8 million for the nine months ended September 30, 2010 to \$19.0 million for the nine months ended September 30, 2011, due to a decrease in variable selling expenses, payroll related expenses, land related expenses, professional fees, advertising expenses, and expenses related to our model homes. New contracts in our Midwest region decreased 15% for the nine months ended September 30, 2011, from 994 in the first nine months of 2010 to 846 in the first nine months of 2011. Backlog at September 30, 2011 decreased 1% from 444 homes at September 30, 2010 to 441 homes at September 30, 2011, with an average sales price in backlog of \$253,000 at September 30, 2011 compared to \$248,000 at September 30, 2010. Our monthly absorption rate for the first nine months of 2011 in the Midwest was 1.2 per community, compared to 1.3 per community

in the first nine months of 2010. Our absorption rate decline, along with our other year over year comparisons, was negatively impacted in the first nine months of 2011 by the April 30, 2010 expiration of the federal homebuyer tax credit.

Southern Region. For the nine months ended September 30, 2011, homebuilding revenue in our Southern region increased \$17.2 million (26%), from \$66.9 million in the first nine months of 2010 to \$84.1 million in the first nine months of 2011. This increase was primarily the result of a 22% increase in the number of homes delivered, from 323 for the nine months ended September 30, 2010 to 395 for the nine months ended September 30, 2011, along with a \$1.0 million increase in revenue from outside land sales, from \$0.1 million for the nine months ended September 30, 2010 to \$1.1 million for the nine months ended September 30, 2011. The average sales price of homes delivered increased slightly from \$208,000 in 2010 to \$210,000 in 2011. Our increase in homes delivered was the result of our entry into the San Antonio market during the second quarter of 2011. Operating loss in our Southern region increased \$4.5 million, from \$2.4 million for the nine months ended September 30, 2010 to \$6.9 million for the nine months ended September 30, 2011, primarily due to an increase in impairment charges, as well as an increase in selling, general and administrative expenses. For the first nine months of 2011 there were \$6.6 million of impairment charges in our Southern region, compared to \$3.7 million in the first nine months of 2010. The \$2.9 million increase in impairment charges was primarily due to management's decision to lower selling prices and increase sales incentives in some of our legacy and close-out communities in various markets within our Southern region. In addition, a portion of the increase in impairment charges was due to changes in our ultimate development plans for some of our legacy raw land. Excluding these impairment charges, as well the \$1.8 million settlement received related to defective drywall (net of \$0.6 million of charges related to defective drywall) for the nine months ended September 30, 2010, our adjusted operating gross margin percentages were 14.7% and 15.6% for the nine months ended September 30, 2011 and 2010, respectively. During the nine months ended September 30, 2011, we opened 16 new communities (five of which were acquired in our acquisition of the assets of TriStone Homes) in our Southern region compared to five new communities for the nine months ended September 30, 2010. For the nine months ended September 30, 2011, 57% of the homes delivered in our Southern region were in new communities, compared to 21% of our homes delivered during the nine months ended September 30, 2010. Selling, general and administrative expenses increased \$1.8 million, from \$10.9 million for the nine months ended September 30, 2010 to \$12.7 million for the nine months ended September 30, 2011. The increase is primarily due to \$3.6 million of additional spend related to our entry into our two Texas markets during the nine months ended September 30, 2011 when compared to the nine months ended September 30, 2010. Homes in backlog increased from 97 homes at September 30, 2010 to 184 homes at September 30, 2011, primarily due to the backlog acquired through our investment in the San Antonio market, as well as a 24% increase in new contracts from 365 in the first nine months of 2010 to 451 in the first nine months of 2011. The average sales price of homes in backlog also increased in our Southern region from \$221,000 at September 30, 2010 to \$230,000 at September 30, 2011, and the overall sales value of our homes in backlog in our Southern region increased to \$42.3 million at September 30, 2011. These increases were primarily due to a change in product mix being sold in our Southern region, as well as the inclusion of the backlog acquired through our acquisition of the assets of TriStone Homes. Our monthly absorption rate for the nine months ended September 30, 2011, in our Southern region, was 1.8 per community, compared to 1.4 per community in the nine months ended September 30, 2010. Our absorption rate, along with many of our other year-over-year comparisons, was negatively impacted in the first nine months of 2011 by the April 30, 2010 expiration of the federal homebuyer tax credit.

Mid-Atlantic Region. Homebuilding revenue in our Mid-Atlantic region decreased \$27.4 million (18%), from \$155.3 million for the nine months ended September 30, 2010 to \$127.9 million for the nine months ended September 30, 2011. This decrease was primarily due to a 15% decrease in the average sales price of homes delivered, from \$315,000 in the first nine months of 2010 to \$269,000 in the first nine months of 2011, and a 4% decrease in the number of homes delivered, from 494 homes for the nine months ended September 30, 2010 to 475 homes for the nine months ended September 30, 2011. The decrease in the average sales price of homes delivered was primarily due to changes in our product mix from the first nine months of 2010 in certain of our Mid-Atlantic markets. Our

Mid-Atlantic region had operating income of \$5.0 million for the nine months ended September 30, 2011, a \$0.3 million improvement compared to the nine months ended September 30, 2010. This increase was primarily due to lower homebuilding costs as a percentage of revenue, lower impairment charges, and lower selling, general and administrative expenses. Our adjusted operating gross margin percentage (excluding less than \$0.1 million of impairment charges) for the nine months ended September 30, 2011 was 16.8%, compared to an adjusted operating gross margin percentage of 17.7% (excluding impairment charges of \$4.4 million) for the nine months ended September 30, 2010. During the nine months ended September 30, 2011, we opened 11 new communities in our Mid-Atlantic region compared to 10 new communities opened in the region during the nine months ended September 30, 2010. For the nine months ended September 30, 2011, 70% of the homes delivered in our Mid-Atlantic region were in new communities, compared to 33% of our homes delivered during the nine months ended September 30, 2010. Selling, general and administrative expenses decreased \$1.9 million, primarily due to a decrease in variable selling expenses, advertising expenses, expenses related to our model homes, and professional fees, which was partially offset by an increase in payroll related expenses. Homes in backlog increased 18%, from 181 homes at September 30, 2010 to 213 homes at September 30, 2011, primarily due to a 16% increase in new contracts from 497 in the first nine months of 2010 to 579 in the first nine months of 2011. The average sales price of homes in backlog also increased, from \$315,000 at September 30, 2010 to \$324,000 at September 30, 2011, and the overall sales value of our homes in backlog in our Mid-Atlantic region increased from \$57.0 million at September 30, 2010 to \$68.9 million at September 30, 2011. Our monthly absorption rate for the nine months

ended September 30, 2011, in our Mid-Atlantic region, was 1.5 per community, compared to 1.9 per community in the nine months ended September 30, 2010. Our absorption rate, along with many of our other year-over-year comparisons, was negatively impacted in the first nine months of 2011 by the April 30, 2010 expiration of the federal homebuyer tax credit.

Financial Services. For the nine months ended September 30, 2011, revenue from our mortgage and title operations decreased \$1.4 million (13%), from \$10.8 million during the nine months ended September 30, 2010 to \$9.4 million during the nine months ended September 30, 2011, primarily due to a 13% decrease in the number of loan originations. Selling, general and administrative expenses decreased \$0.5 million for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010. We had a decrease of \$0.9 million in operating income for the first nine months of 2011, compared to the first nine months of 2010, which was primarily due to the decrease in revenue discussed above.

At September 30, 2011, M/I Financial had mortgage operations in all of our markets except Houston, where we are just entering the mortgage services market. Approximately 85% of our homes delivered during the first nine months of 2011 that were financed were financed through M/I Financial, compared to 84% in the first nine months of 2010. Capture rate is influenced by financing availability and can fluctuate up or down from quarter to quarter.

Corporate Selling, General and Administrative Expenses. Corporate selling, general and administrative expenses decreased \$2.0 million (12%), from \$17.3 million in the nine months ended September 30, 2010 to \$15.3 million in the nine months ended September 30, 2011. The decrease was primarily due to a decrease of \$1.2 million in payroll related expenses, a \$0.4 million decrease in miscellaneous other expenses, and a \$0.4 million decrease in selling expenses.

Interest Expense - Net. Interest expense for the Company increased \$4.7 million, from \$6.2 million for the nine months ended September 30, 2010 to \$10.9 million for the nine months ended September 30, 2011. This increase was primarily due to the increase in our weighted average borrowing rate from 8.80% for the nine months ended September 30, 2010 to 9.54% for the nine months ended September 30, 2011, along with the increase in our weighted average borrowings from \$209.8 million in the first nine months of 2010 to \$259.9 million in the first nine months of 2011, due primarily to the issuance of the 2018 Senior Notes in the fourth quarter of 2010.

LIQUIDITY AND CAPITAL RESOURCES

Overview of Capital Resources and Liquidity

During 2010 and the first nine months of 2011, we continued to reduce operating expenses and manage our use of cash to operate our business. We also made acquisitions of land assets that met our investment and marketing standards to replenish our land inventories and to facilitate future growth in the markets in which we operate. In April 2011, we acquired the assets of TriStone Homes, a privately-held homebuilder based in San Antonio, Texas, and we believe this expansion of our geographic footprint will help improve our overall operations. At September 30, 2011, we had \$93.0 million of cash and cash equivalents and restricted cash, with \$46.8 million of this amount comprised of unrestricted cash and cash equivalents.

At September 30, 2011 and December 31, 2010, our ratio of net debt to net capital was 40% and 34%, respectively. Net debt to net capital ratio is calculated as total debt minus total cash and cash equivalents, divided by the sum of total debt minus total cash and cash equivalents plus shareholders' equity. We believe that the ratio of net debt to net capital is useful in understanding the leverage employed in our operations and comparing us with other homebuilders.

We continue to operate in a challenging economic environment, and our ability to maintain sufficient liquidity for our business operations may be affected by economic or business conditions beyond our control. However, we believe that our balance of unrestricted cash, available borrowing options, and other sources of liquidity will be sufficient to fund currently anticipated working capital, planned capital spending, and debt service requirements for at least the next twelve months, including the repayment, at or prior to maturity, of the \$41.4 million outstanding balance of the Company's 6.875% Senior Notes due April 1, 2012 (the "2012 Senior Notes").

Operating Cash Flow Activities

In the first nine months of 2011, we used \$24.6 million of cash in our operating activities, compared to \$43.0 million in the first nine months of 2010. During the nine months ended September 30, 2011, we spent \$56.6 million on land and \$33.5 million on land development, which was the primary use of cash during the first nine months of 2011, compared to \$123.6 million of like spending during the nine months ended September 30, 2010. Based upon our business activity levels, liquidity, leverage, market conditions, and opportunities for land in our markets, we currently estimate that we will spend a total of \$125 to \$150 million on land purchases and land development in 2011. However, land transactions are subject to a number of contingencies and thus the

timing of specific purchases is difficult to project. In addition, we will actively monitor market conditions and plan to adjust our land spending accordingly.

The amount of cash used in operating activities in the first nine months of 2011 represented a \$18.4 million decrease from the \$43.0 million of cash used in the first nine months of 2010. Driving this decrease was the \$33.5 million decrease in land and land development spending discussed above along with a \$12.7 million net increase in other liabilities. Partially offsetting these cash increases was a \$31.7 million decrease in the net change in other assets during the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010.

In the normal course of our business, we have continued to enter into land option agreements, taking into consideration current and projected market conditions, in order to secure land for the construction of homes in the future. Pursuant to these land option agreements, we have provided deposits to land sellers totaling \$7.5 million as of September 30, 2011 as consideration for the right to purchase land and lots in the future, including the right to purchase \$140.3 million of land and lots during the years 2011 through 2017.

Investing Cash Flow Activities

For the nine months ended September 30, 2011, we used \$10.7 million of cash from investing activities, compared to \$18.6 million in the nine months ended September 30, 2010. This decrease in cash used was primarily due to the \$4.5 million increase in restricted cash in the first nine months of 2011 compared to the \$16.4 million increase in first nine months of 2010. Restricted cash as of September 30, 2010 primarily consisted of homebuilding cash the Company had designated as collateral at September 30, 2010 in accordance with the four secured Letter of Credit Facilities that the Company entered into in July 2009 and the one secured Letter of Credit Facility that the Company entered into in June 2010. During the nine months ended September 30, 2011, the Company was required to pledge \$25 million of cash as security to the lenders under its \$140 million secured revolving credit facility dated June 9, 2010 (the "Credit Facility") as we did not meet either the required minimum Interest Coverage Ratio or the minimum Adjusted Cash Flow Ratio (as such terms are defined in the Credit Facility). We believe the requirement to pledge \$25 million of cash under the Credit Facility will remain in effect for the foreseeable future.

Financing Cash Flow Activities

For the nine months ended September 30, 2011, our financing activities generated \$0.9 million of cash, compared to the Company using \$4.5 million of cash for financing activities during the nine months ended September 30, 2010. The cash generated during the first nine months of 2011 was primarily the result of \$1.5 million of proceeds from stock options exercised. The cash used during the first nine months of 2010 was primarily the result of \$3.9 million of costs associated with obtaining the Credit Facility in June 2010.

Our homebuilding and financial services operations financing needs depend on anticipated sales volume in the current year as well as future years, inventory levels and related turnover, forecasted land and lot purchases, debt maturity dates, and other Company plans. We fund these operations with cash flows from operating activities, borrowings under our credit facilities, and, from time to time, issuances of new debt and/or equity securities, as management deems necessary. Our 2012 Senior Notes mature in April 2012 and at such time we will be required to repay the aggregate outstanding principal balance of \$41.4 million. We expect to have adequate cash from available sources, including borrowings under the Credit Facility, if needed, to repay the 2012 Senior Notes at their maturity date.

We have incurred substantial indebtedness, and may incur substantial indebtedness in the future, to fund our homebuilding and mortgage origination activities. We routinely monitor current operational requirements, financial market conditions, and credit relationships. We believe that our operations and borrowing resources will provide for our current and long-term liquidity requirements. We further believe that we will be able to continue to fund our

current operations and meet our contractual obligations through a combination of existing cash resources and our existing sources of credit. However, we continue to evaluate the impact of market conditions on our liquidity and may determine that modifications are necessary to our cash management if market conditions continue to deteriorate and/or the challenging economic conditions extend beyond our expectations. We cannot be certain that we will be able to replace our existing financing or find sources of additional financing in the future. Please refer to “Item 1A. Risk Factors” in Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2010 and “Item 1A. Risk Factors” in Part II of our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 for further discussion of risk factors that could impact our source of funds.

Included in the table below is a summary of our available sources of cash as of September 30, 2011:

(In thousands)	Expiration Date	Outstanding Balance	Available Amount
Notes payable – homebuilding (a)	6/9/2013	\$—	\$32,869
Notes payable – financial services (b)	3/31/2012	\$26,394	\$136
Senior Notes	4/1/2012	\$41,443	\$—
Senior Notes	11/15/2018	\$200,000	\$—
MIF Mortgage Repurchase Agreement (c)	12/26/2011	\$5,264	\$—

The available amount is computed in accordance with the borrowing base calculation under the Credit Facility and (a) can be increased if we secure additional assets or invest additional amounts in the currently pledged assets. The maximum aggregate commitment amount of the Credit Facility is \$140 million.

The available amount is in accordance with the borrowing base calculation under M/I Financial's \$50 million mortgage warehousing agreement dated April 18, 2011 (the “MIF Mortgage Warehousing Agreement”). (b) The maximum aggregate commitment amount of the MIF Mortgage Warehousing Agreement is \$50 million. The MIF Mortgage Warehousing Agreement has an expiration date of March 31, 2012.

M/I Financial entered into a \$10 million uncommitted mortgage repurchase agreement (the “MIF Mortgage (c) Repurchase Agreement”) on December 27, 2010. At the discretion of the lender, M/I Financial can increase availability under this facility by adding mortgage collateral.

Notes Payable - Homebuilding.

Homebuilding Credit Facility. The Company entered into the Credit Facility on June 9, 2010. The Credit Facility matures on June 9, 2013. The Credit Facility provides revolving credit financing for the Company in the aggregate commitment amount of up to \$140 million (with availability as determined by a borrowing base), including a \$25 million sub-facility for letters of credit. The Credit Facility is governed by a Credit Agreement (the “Credit Agreement”). Borrowings under the Credit Facility are at the Alternate Base Rate plus a margin of 350 basis points or at the Eurodollar Rate plus a margin of 450 basis points, as described in the Credit Agreement. As of September 30, 2011, the Company had no outstanding borrowings, and \$20.0 million of issued and outstanding letters of credit under the Credit Facility, and the Company had pledged \$69.1 million in aggregate book value of inventory and \$25 million of cash to secure any borrowings and letters of credit outstanding under the Credit Facility.

The Company's obligations under the Credit Facility are secured by certain of the personal property of the Company and the subsidiary guarantors, including the equity interests in the subsidiary guarantors, and by certain real property in Ohio and North Carolina.

Availability under the Credit Facility is based on a borrowing base equal to 100% of cash, if any, pledged as security plus 45% of the aggregate appraised value of mortgaged real property. The borrowing base also includes certain limits on the percentage of real property in a single geographic market and on the percentage of real property consisting of lots under development and unimproved land. As of September 30, 2011, there was \$52.9 million of availability under the Credit Facility in accordance with the borrowing base calculation, and \$20.0 million of letters of credit outstanding under the Credit Facility, leaving \$32.9 million of remaining availability. The Company can create additional borrowing availability under the Credit Facility to the extent it pledges additional assets. The borrowing availability can also be increased by increasing investments in assets currently pledged, offset by decreases equal to the collateral value of homes delivered that are within the pledged asset pool.

The Company's obligations under the Credit Facility are guaranteed by all of the Company's subsidiaries, with the exception of subsidiaries that are primarily engaged in the business of mortgage financing, the origination of

mortgages for resale, title insurance or similar financial businesses relating to the homebuilding and home sales business and certain subsidiaries that are not wholly-owned by the Company or another subsidiary.

The Credit Facility contains various representations, warranties and affirmative, negative and financial covenants. The covenants, as more fully described and defined in the Credit Agreement, require, among other things, that the Company:

Maintain a minimum level of Consolidated Tangible Net Worth equal to or exceeding (i) \$200 million plus (ii) 50% of Consolidated Earnings (without deduction for losses and excluding the effect of any decreases in any Deferred Tax Valuation Allowance) earned for each completed fiscal quarter ending after March 31, 2010 to the date of determination, excluding any quarter in which the Consolidated Earnings are less than zero, plus (iii) the amount of any reduction or reversal in Deferred Tax Valuation Allowance for each completed fiscal quarter ending after March 31, 2010 minus (iv) the costs of the Company's repurchase of the 2012 Senior Notes up to \$10 million.

Maintain a leverage ratio (Consolidated Indebtedness to Consolidated Tangible Net Worth) not in excess of 1.50 to 1.00.

Maintain one or more of the following: (i) a minimum Interest Coverage Ratio of 1.50 to 1.00; (ii) a minimum Adjusted Cash Flow Ratio of 1.50 to 1.00; or (iii) unrestricted cash pledged as security to the lenders of not less than \$25 million. As a result of increased interest costs following our issuance of the 2018 Senior Notes in the fourth quarter of 2010, the Company's ratios were less than both the required minimum Interest Coverage Ratio and the minimum Adjusted Cash Flow Ratio for the quarters ended June 30, 2011 and September 30, 2011, and therefore, we were required to maintain our pledge of \$25 million of cash as security to the lenders in accordance with the terms of the Credit Agreement.

Not incur any secured indebtedness outside of the Credit Facility exceeding \$25 million at any one time outstanding other than an aggregate amount not in excess of \$50 million of issued and outstanding secured letters of credit.

Not incur any liens except for liens permitted by the Credit Agreement, which permitted liens include liens on the permitted amount of secured indebtedness and liens incurred in the normal operation of the Company's homebuilding and related business.

Not allow the number of unsold housing units and model homes to exceed, as of the end of any fiscal quarter, the greater of (a) the number of housing unit closings occurring during the period of twelve months ending on the last day of such fiscal quarter, multiplied by 35%, or (b) the number of housing unit closings occurring during the period of nine months ending on the last day of such fiscal quarter, multiplied by 70%.

Not allow adjusted land value to exceed 110% of Consolidated Tangible Net Worth.

Not make or commit to make any Investments except for Investments permitted by the Credit Agreement, which permitted Investments include (i) Investments made in the normal operation of the Company's homebuilding and related business, (ii) Investments in cash and equivalents and (iii) Investments in Non-Guarantor Subsidiaries, Financial Subsidiaries and Joint Ventures up to a maximum of 30% of Consolidated Tangible Net Worth.

As of September 30, 2011, the Company was in compliance with all covenants of the Credit Facility. The following table summarizes the restrictive covenant thresholds under the Credit Facility and our compliance with such covenants as of September 30, 2011:

Financial Covenant		Covenant Requirement (Dollars in millions)	Actual
Consolidated Tangible Net Worth	≥	\$191.6	\$270
Leverage Ratio	≤	1.50 to 1.00	1.08 to 1
Interest Coverage Ratio (a)	≥	1.50 to 1.00	0.89 to 1
Adjusted Cash Flow Ratio (a)	≥	1.50 to 1.00	0.12 to 1
Secured Indebtedness (Excluding Secured Letters of Credit)	<	\$25.0	\$6.4
Adjusted Land Value	≤	\$297.0	\$172.7
Investments in Non-Guarantor Subsidiaries, Financial Subsidiaries and Joint Ventures	≤	\$81.0	\$10.6
Unsold Housing Units and Model Homes	≤	820	751

(a) The Company is required to meet one of these two interest coverage requirements or pledge cash of \$25 million with the lenders.

Homebuilding Letter of Credit Facilities. The Company is party to five secured credit agreements for the issuance of letters of credit outside of the Credit Facility (collectively, the "Letter of Credit Facilities"). Four of the Letter of

Credit Facilities have maturity dates ranging from June 1, 2012 to September 30, 2012, while the fifth Letter of Credit Facility has no expiration date and will remain in effect until the Company or the issuing bank gives notice of termination. Under the terms of the Letter of Credit Facilities, letters of credit can be issued for maximum terms ranging from one year up to three years. The Letter of Credit Facilities contain cash collateral requirements ranging from 100% to 105%. Upon maturity or the earlier termination of the Letter of Credit Facilities, letters of credit that have been issued under the Letters of Credit Facilities remain outstanding with cash collateral in place through the respective expiration dates.

The agreements governing the Letter of Credit Facilities contain limits for the issuance of letters of credit ranging from \$10.0 million to \$14.0 million, for a combined letter of credit capacity of \$56.0 million, of which \$21.0 million was uncommitted at September 30, 2011 and could be withdrawn at any time. As of September 30, 2011, there was a total of \$17.8 million of letters of credit issued under the Letter of Credit Facilities, which was collateralized with \$18.3 million of restricted cash.

Notes Payable - Financial Services.

MIF Mortgage Warehousing Agreement. M/I Financial entered into the MIF Mortgage Warehousing Agreement on April 18, 2011. The MIF Mortgage Warehousing Agreement replaced M/I Financial's previous \$45 million secured credit agreement dated April 26, 2010 (the "MIF Credit Agreement"). The MIF Mortgage Warehousing Agreement expires on March 31, 2012 and is used to finance eligible residential mortgage loans originated by M/I Financial. The MIF Mortgage Warehousing Agreement provides M/I Financial with maximum borrowing availability of \$50 million. M/I Financial pays interest on each advance under the MIF Mortgage Warehousing Agreement at a per annum rate of the greater of (i) the floating LIBOR rate plus 225 basis points and (ii) 4.0%.

The MIF Mortgage Warehousing Agreement is secured by certain mortgage loans that have been originated by M/I Financial and are being "warehoused" prior to their sale to investors. The MIF Mortgage Warehousing Agreement provides for limits with respect to certain loan types that can secure outstanding borrowings. There are currently no guarantors of the MIF Mortgage Warehousing Agreement, although M/I Financial may, at its election, designate from time to time any one or more of its subsidiaries as guarantors.

M/I Financial must comply with certain representations, warranties and covenants set forth in the MIF Mortgage Warehousing Agreement. The covenants, as more fully described and defined in the MIF Mortgage Warehousing Agreement, require, among other things, that M/I Financial:

- Maintain Tangible Net Worth of at least \$10 million.
- Maintain liquidity (unencumbered cash and cash equivalents) of at least \$5 million.
- Maintain a leverage ratio (Debt to Tangible Net Worth) of not more than 10.0 to 1.0.
- Maintain, as of the end of each calendar month, for the 12 months then ending, positive Adjusted Net Income.

Not incur any Funded Debt, except as permitted by the MIF Mortgage Warehousing Agreement, which permitted Funded Debt includes other mortgage collateralized facilities and Funded Debt incurred in the normal operation of M/I Financial's mortgage finance and related business.

Not incur any liens, except as permitted by the MIF Mortgage Warehousing Agreement, which permitted liens include liens securing other mortgage collateralized facilities and liens incurred in the normal operation of M/I Financial's mortgage finance and related business.

Not make any Investments, except as permitted by the MIF Mortgage Warehousing Agreement, which permitted Investments include Investments in cash and equivalents and Investments made in the normal operation of M/I Financial's mortgage finance and related business.

As of September 30, 2011, there was \$26.4 million outstanding under the MIF Mortgage Warehousing Agreement and the Company was in compliance with all covenants. The following table summarizes the restrictive covenant thresholds under the MIF Mortgage Warehousing Facility and M/I Financial's compliance with such covenants as of September 30, 2011:

Financial Covenant	Covenant Requirement (Dollars in millions)	Actual
Leverage Ratio	≤ 10.0 to 1.00	3.3 to 1.00

Liquidity	≥	\$5.0	\$13.1
Adjusted Net Income	>	0	\$1.7
Tangible Net Worth	≥	\$10.0	\$12.1

MIF Mortgage Repurchase Agreement. M/I Financial entered into the MIF Mortgage Repurchase Agreement on December 27, 2010. The MIF Mortgage Repurchase Agreement expires on December 26, 2011 and can be terminated by either party at any time upon 30 days' notice. With the MIF Mortgage Repurchase Agreement expiring during the fourth quarter of 2011, we may replace it with a similar facility on or prior to the expiration date and we may also seek an increase in our availability under the MIF Mortgage Warehousing Agreement on or prior to its expiration in March of 2012, although we do believe that we have adequate availability for funding our mortgage business without the MIF Mortgage Repurchase Agreement. The MIF Mortgage Repurchase Ag

reement provides that the lender may purchase from M/I Financial mortgage loans in the aggregate amount of up to \$10.0 million, with the agreement of the lender to re-sell such mortgages to M/I Financial at a later date. M/I Financial repurchases mortgages from the lender at varying percentages above the price that the lender pays to M/I Financial for the mortgages. As of September 30, 2011 M/I Financial had sold and not yet repurchased \$5.3 million of mortgages under the MIF Mortgage Repurchase Agreement. As a result of M/I Financial's obligation to repurchase mortgages under the terms of the agreement, fundings under the MIF Mortgage Repurchase Agreement are accounted for as secured borrowings.

M/I Financial's obligation to repurchase mortgage loans sold to the lender are secured by the mortgage loans that have been purchased by the lender. The MIF Mortgage Repurchase Agreement provides for limits with respect to certain loan types that are eligible for purchase by the lender. There are no guarantors of the MIF Mortgage Repurchase Agreement.

M/I Financial must comply with certain representations, warranties and covenants set forth in the MIF Mortgage Repurchase Agreement. The covenants, as more fully described and defined in the MIF Mortgage Repurchase Agreement, require, among other things, that M/I Financial:

• Maintain a minimum Tangible Net Worth of \$10 million.

• Maintain a minimum level of unrestricted cash or unrestricted cash equivalents equal to at least 40% of M/I Financial's Tangible Net Worth.

• Maintain a maximum ratio of total liabilities to Tangible Net Worth of 8.0 to 1.0.

As of September 30, 2011, M/I Financial was in compliance with all covenants of the MIF Mortgage Repurchase Agreement. The following table summarizes the covenant thresholds under the MIF Mortgage Repurchase Agreement and M/I Financial's compliance with such covenants as of September 30, 2011:

Financial Covenant	Covenant Requirement	Actual
	(Dollars in millions)	
Tangible Net Worth	≥ \$10.0	\$11.7
Liquidity (Unrestricted Cash or Cash Equivalents)	≥ \$4.7	\$13.1
Leverage Ratio (Total Liabilities to Tangible Net Worth)	≤ 8.0 to 1.0	3.5 to 1.0

Senior Notes. On November 12, 2010, the Company completed a cash tender offer to purchase any and all of its outstanding 2012 Senior Notes in which \$158.6 million aggregate principal amount of the \$200 million of outstanding 2012 Senior Notes was tendered and accepted for purchase. On November 12, 2010, the Company also closed on its private placement of \$200 million aggregate principal amount of the 2018 Senior Notes which were subsequently exchanged for publicly registered notes in June of 2011.

The 2012 Senior Notes are fully and unconditionally guaranteed jointly and severally by all of our wholly-owned subsidiaries, while the 2018 Senior Notes are fully and unconditionally guaranteed jointly and severally by all of our subsidiaries, with the exception of subsidiaries that are primarily engaged in the business of mortgage financing, the origination of mortgages for resale, title insurance or similar financial businesses relating to the homebuilding and home sales business and certain subsidiaries that are not wholly-owned by the Company or another subsidiary. The 2012 Senior Notes and the 2018 Senior Notes and the related guarantees are general, unsecured senior obligations of the Company and the subsidiary guarantors and rank equally in right of payment with all our existing and future unsecured senior indebtedness.

The Company must comply with certain covenants set forth in the indentures governing the 2012 Senior Notes and the 2018 Senior Notes. The covenants, as more fully described and defined in the indentures, limit the ability of the Company and the restricted subsidiaries to, among other things:

Incur additional Indebtedness except for Indebtedness permitted under the applicable indenture (which permitted Indebtedness includes indebtedness under the Credit Facility) unless, after giving effect to the issuance of such additional Indebtedness, either (a) the Consolidated Fixed Charge Coverage Ratio would be at least 2.00 to 1.00 or (b) the ratio of Consolidated Indebtedness to Consolidated Tangible Net Worth would be less than 3.00 to 1.00 (the "Ratio Limitations").

Make Investments except for Investments permitted under the applicable indenture, which permitted Investments include (i) Investments made in the normal operation of the Company's homebuilding and related business, (ii) Investments in cash and equivalents, (iii) Investments in Subsidiaries or Joint Ventures that are not Guarantors under the respective

indentures, in an aggregate amount subsequent to the respective Issue Dates (net of any such Investment amounts re-distributed) not to exceed 15% of Consolidated Tangible Assets at any one time outstanding and (iv) other Investments in an aggregate amount not to exceed \$25 million (under the indenture governing the 2012 Senior Notes) or \$40 million (under the indenture governing the 2018 Senior Notes) at any one time outstanding.

Make certain payments, including dividends, or repurchase any shares, in an aggregate amount exceeding our “restricted payments basket,” as defined in the indentures. As of September 30, 2011, the restricted payments basket under the indenture governing the 2012 Senior Notes was \$(213.5) million and the restricted payments basket under the indenture governing the 2018 Senior Notes was \$(4.9) million. As a result of the deficit in the restricted payments basket under the indenture governing the 2012 Senior Notes and the indenture governing the 2018 Senior Notes, the Company is currently restricted from paying dividends on its common shares and its 9.75% Series A Preferred Shares, and from repurchasing any shares.

Create liens except for liens permitted under the applicable indenture (which permitted liens include liens under the Credit Facility).

Consolidate or merge with or into other companies.

Liquidate or sell or transfer all or substantially all of our assets.

These covenants are subject to a number of exceptions and qualifications as described in the indentures governing the 2012 Senior Notes and the 2018 Senior Notes. As of September 30, 2011, the Company was in compliance with all terms, conditions, and covenants under the indentures.

As of September 30, 2011, \$41.4 million aggregate principal amount of the 2012 Senior Notes remained outstanding. We may seek to repurchase the outstanding 2012 Senior Notes from time to time prior to maturity through open market repurchase transactions, privately negotiated transactions, tender offers, exchange offers, redemption or otherwise. The timing and nature of any such transactions will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. Any such transactions, individually or in the aggregate, may be material to our financial condition, results of operations and/or liquidity. The 2012 Senior Notes mature in April 2012. To the extent we do not repurchase the remaining outstanding balance of the 2012 Senior Notes prior to maturity, we will be required to repay the then-outstanding aggregate amount of the 2012 Senior Notes in April 2012. We have various alternatives to repay the notes at maturity, including using available cash and borrowing under the Credit Facility, if needed, to repay the 2012 Senior Notes at or prior to maturity.

Weighted Average Borrowings. For the three months ended September 30, 2011 and 2010, our weighted average borrowings outstanding were \$262.9 million and \$211.1 million, respectively, with a weighted average interest rate of 9.42% and 8.58%, respectively. For the nine months ended September 30, 2011 and 2010, our weighted average borrowings outstanding were \$259.9 million and \$209.8 million, respectively, with a weighted average interest rate of 9.54% and 8.80%, respectively. The increase in borrowings was primarily the result of the issuance of the 2018 Senior Notes, partially offset by the tender offer for the 2012 Senior Notes, in the fourth quarter of 2010.

At September 30, 2011 we did not have any funded amounts outstanding under the Credit Facility, and there were \$20.0 million of letters of credit issued and outstanding under the Credit Facility. During the nine months ended September 30, 2011, the average daily amount of letters of credit outstanding under the Credit Facility was \$1.2 million and the maximum amount of letters of credit outstanding under the Credit Facility was \$20.0 million.

At September 30, 2011, M/I Financial had \$26.4 million outstanding under the MIF Mortgage Warehousing Agreement. During the nine months ended September 30, 2011, the average daily amount outstanding under the MIF

Mortgage Warehousing Agreement (from April 18, 2011 to September 30, 2011) and the MIF Credit Agreement (from January 1, 2011 to April 18, 2011), was \$8.6 million and the maximum amount outstanding under the MIF Mortgage Warehousing Agreement (from April 18, 2011 through September 30, 2011) and the MIF Credit Agreement (from January 1, 2011 to April 18, 2011), was \$32.4 million.

At September 30, 2011, M/I Financial had \$5.3 million of mortgages sold and not yet repurchased under the MIF Mortgage Repurchase Agreement. During the nine months ended September 30, 2011, the average daily amount of outstanding mortgages sold and not yet repurchased under the MIF Mortgage Repurchase Agreement was \$4.1 million and the maximum amount of outstanding mortgages sold and not yet repurchased under the MIF Mortgage Repurchase Agreement was \$10.0 million.

Preferred Shares. On March 15, 2007, we issued 4,000,000 depositary shares, each representing 1/1000th of a 9.75% Series A Preferred Share (the "Preferred Shares"), or 4,000 Preferred Shares in the aggregate, for net proceeds of \$96.3 million. Dividends

on the Preferred Shares are non-cumulative and are paid at an annual rate of 9.75%. Dividends are payable quarterly in arrears, if declared by us, on March 15, June 15, September 15 and December 15. If there is a change of control of the Company and if the Company's corporate credit rating is withdrawn or downgraded to a certain level (together constituting a "change of control event"), the dividends on the Preferred Shares will increase to 10.75% per year. We may not redeem the Preferred Shares prior to March 15, 2012, except following the occurrence of a change of control event. On or after March 15, 2012, we have the option to redeem the Preferred Shares in whole or in part at any time or from time to time, at a cash redemption price of \$25 per depositary share. The Preferred Shares have no stated maturity, are not subject to any sinking fund provisions, are not convertible into any other securities, and will remain outstanding indefinitely unless redeemed by us. Holders of the Preferred Shares have no voting rights, except as otherwise required by applicable Ohio law. The Preferred Shares are listed on the New York Stock Exchange under the trading symbol "MHO-PA."

We did not pay any dividends on the Preferred Shares in the first nine months of 2011. As a result of a current deficit in our restricted payments basket under the indenture governing our 2012 Senior Notes and the indenture governing our 2018 Senior Notes, we are currently restricted from making any further dividend payments on our common shares or the Preferred Shares. We will continue to be restricted from paying dividends until such time as (1) either the restricted payments basket becomes positive, as a result of cumulative positive earnings in excess of the current deficit amount, or the 2012 Senior Notes are repaid in full and (2) our Board of Directors authorizes us to resume dividend payments. See Note 11 to our Unaudited Condensed Consolidated Financial Statements for more information concerning those restrictive covenants.

Universal Shelf Registration. In August 2011, the Company filed a \$250 million universal shelf registration statement with the SEC, which registration statement became effective on September 30, 2011. Pursuant to the registration statement, the Company may, from time to time, offer debt securities, common shares, preferred shares, depositary shares, warrants to purchase debt securities, common shares, preferred shares, depositary shares or units of two or more of those securities, rights to purchase debt securities, common shares, preferred shares or depositary shares, stock purchase contracts, stock purchase units and units. The timing and amount of offerings, if any, will depend on market and general business conditions.

CONTRACTUAL OBLIGATIONS

There have been no material changes to our contractual obligations appearing in the Contractual Obligations section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2010.

OFF-BALANCE SHEET ARRANGEMENTS

Our primary use of off-balance sheet arrangements is for the purpose of securing the most desirable lots on which to build homes for our homebuyers in a manner that we believe reduces the overall risk to the Company. Our off-balance sheet arrangements relating to our homebuilding operations include Unconsolidated LLCs, land option agreements, guarantees and indemnifications associated with acquiring and developing land, and the issuance of letters of credit and completion bonds. Additionally, in the ordinary course of business, our financial services operations issue guarantees and indemnities relating to the sale of loans to third parties.

Unconsolidated Limited Liability Companies. In the ordinary course of business, the Company periodically enters into arrangements with third parties to acquire land and develop lots. These arrangements include the creation by the Company of Unconsolidated LLCs, with the Company's interest in these entities ranging from 33% to 50%. These entities engage in land development activities for the purpose of distributing (in the form of a capital distribution) or selling developed lots to the Company and its partners in the entity. These entities generally do not meet the criteria of

VIEs, because the equity at risk is sufficient to permit the entity to finance its activities without additional subordinated support from the equity investors; however, we must evaluate each entity to determine whether it is or is not a VIE. If an entity was determined to be a VIE, we would then evaluate whether or not we are the primary beneficiary. These evaluations are initially performed when each new entity is created and upon any events that require reconsideration of the entity.

We have determined that none of the Unconsolidated LLCs in which we have an interest are VIEs, and we also have determined that we do not have substantive control over any of these entities; therefore, our homebuilding Unconsolidated LLCs are recorded using the equity method of accounting. The Company believes its maximum exposure related to any of these entities as of September 30, 2011 to be the amount invested of \$10.3 million.

Land Option Agreements. In the ordinary course of business, the Company enters into land option agreements in order to secure land for the construction of homes in the future. Pursuant to these land option agreements, the Company will provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices. Because

the entities holding the land under the option agreement often meet the criteria for VIEs, the Company evaluates all land option agreements to determine if it is necessary to consolidate any of these entities. The Company currently believes that its maximum exposure as of September 30, 2011 related to these agreements is equal to the amount of the Company's outstanding deposits, which totaled \$7.5 million, including prepaid acquisition costs of \$1.1 million, and letters of credit of \$3.7 million.

Letters of Credit and Completion Bonds. The Company provides standby letters of credit and completion bonds for development work in progress, deposits on land and lot purchase agreements and miscellaneous deposits. As of September 30, 2011, the Company had outstanding \$67.8 million of completion bonds and standby letters of credit, some of which were issued to various local governmental entities, that expire at various times through December 2016. Included in this total are: (1) \$22.9 million of performance bonds and \$26.9 million of performance letters of credit that serve as completion bonds for land development work in progress (including the Company's less than \$0.1 million share of our Unconsolidated LLCs' letters of credit and bonds); (2) \$11.1 million of financial letters of credit; and (3) \$6.9 million of financial bonds. The development agreements under which we are required to provide completion bonds or letters of credit are generally not subject to a required completion date and only require that the improvements are in place in phases as houses are built and sold. In locations where development has progressed, the amount of development work remaining to be completed is typically less than the remaining amount of bonds or letters of credit due to timing delays in obtaining release of the bonds or letters of credit.

Guarantees and Indemnities. In the ordinary course of business, M/I Financial enters into agreements that guarantee purchasers of its mortgage loans that M/I Financial will repurchase a loan if certain conditions occur. The risks associated with these guarantees are offset by the value of the underlying assets, and the Company accrues its best estimate of the probable loss on these loans. Additionally, the Company has provided certain other guarantees and indemnities in connection with the acquisition and development of land by our homebuilding operations. Refer to Note 8 of our Unaudited Condensed Consolidated Financial Statements for additional details relating to our guarantees and indemnities.

INTEREST RATES AND INFLATION

Our business is significantly affected by general economic conditions within the United States and, particularly, by the impact of interest rates and inflation. Higher interest rates may decrease our potential market by making it more difficult for homebuyers to qualify for mortgages or to obtain mortgages at interest rates that are acceptable to them. The impact of increased rates can be offset, in part, by offering variable rate loans with lower interest rates. In conjunction with our mortgage financing services, hedging methods are used to reduce our exposure to interest rate fluctuations between the commitment date of the loan and the time the loan closes.

During the past few years, we have experienced some detrimental effects from inflation, particularly the inflation in the cost of land that occurred several years ago. As a result of declines in market conditions in most of our markets, in certain communities we have been unable to recover the cost of these higher land prices, resulting in lower gross margins and significant charges being recorded in our operating results due to the impairment of inventory and investments in Unconsolidated LLCs, and other write-offs relating to abandoned land transaction costs. In recent years, we have not experienced a detrimental effect from inflation in relation to our home construction costs, and we have been successful in reducing certain of these costs with our subcontractors. However, unanticipated construction costs or a change in market conditions may occur during the period between the date sales contracts are entered into with customers and the delivery date of the related homes, resulting in lower gross profit margins.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk results from fluctuations in interest rates. We are exposed to interest rate risk through borrowings under our revolving credit facilities, consisting of the Credit Facility and the MIF Mortgage Warehousing Agreement, which permit borrowings of up to \$190 million, subject to availability constraints. Additionally, M/I Financial is exposed to interest rate risk associated with its mortgage loan origination services.

Loan Commitments: Interest rate lock commitments (“IRLCs”) are extended to certain home-buying customers who have applied for a mortgage loan and meet certain defined credit and underwriting criteria. Typically, the IRLCs will have a duration of less than nine months; however, in certain markets, the duration could extend to twelve months.

Some IRLCs are committed to a specific third-party investor through the use of best-efforts whole loan delivery commitments matching the exact terms of the IRLC loan. The notional amount of the committed IRLCs and the best-efforts contracts was \$1.5 million and \$2.3 million at September 30, 2011 and December 31, 2010, respectively. At September 30, 2011, the fair value of the committed IRLCs resulted in a liability of less than \$0.1 million and the related best-efforts contracts resulted in an asset of less than \$0.1 million. At December 31, 2010, the fair value of the committed IRLCs resulted in a liability of less than \$0.1 million, and the related best-efforts contracts resulted in an asset of less than \$0.1 million. For both the three and nine months ended September 30, 2011, we recognized income of less than \$0.1 million, relating to marking these committed IRLCs and the related best-efforts contracts to market. For the three and nine months ended September 30, 2010, we recognized income of less than \$0.1 million and \$0.1 million, respectively, relating to marking these committed IRLCs and the related best-efforts contracts to market.

Uncommitted IRLCs are considered derivative instruments and are fair value adjusted, with the resulting gain or loss recorded in current earnings. At September 30, 2011 and December 31, 2010, the notional amount of the uncommitted IRLCs was \$45.2 million and \$24.9 million, respectively. The fair value adjustment related to these uncommitted IRLCs, which is based on quoted market prices, resulted in an asset of \$0.7 million and a liability of less than \$0.1 million at September 30, 2011 and December 31, 2010, respectively. For the three and nine months ended September 30, 2011, we recognized income of \$0.5 million and \$0.7 million, respectively, relating to marking the uncommitted IRLCs to market. For the three and nine months ended September 30, 2010, we recognized expense of \$0.4 million and income of \$0.3 million, respectively, relating to marking the uncommitted IRLCs to market.

Forward Sales of Mortgage-Backed Securities: Forward sales of mortgage-backed securities (“FMBSs”) are used to protect uncommitted IRLC loans against the risk of changes in interest rates between the lock date and the funding date. FMBSs related to uncommitted IRLCs are classified and accounted for as non-designated derivative instruments and are recorded at fair value, with gains and losses recorded in current earnings. At September 30, 2011 and December 31, 2010, the notional amount under these FMBSs was \$42.0 million and \$27.0 million, respectively, and the related fair value adjustment, which is based on quoted market prices, resulted in a liability of \$0.2 million and an asset of \$0.1 million, respectively. For the three and nine months ended September 30, 2011, we recognized expense of \$0.4 million and \$0.3 million, respectively, relating to marking these FMBSs to market. For the three and nine months ended September 30, 2010, we recognized income of \$0.7 million and expense of \$0.6 million, respectively, relating to marking these FMBSs to market.

Mortgage Loans Held for Sale: Mortgage loans held for sale consist primarily of single-family residential loans collateralized by the underlying property. During the intervening period between when a loan is closed and when it is sold to an investor, the interest rate risk is covered through the use of a best-efforts contract or by FMBSs.

The notional amount of the best-efforts contracts and related mortgage loans held for sale was \$5.1 million and \$42.7 million at September 30, 2011 and December 31, 2010, respectively. The fair value of the best-efforts contracts and related mortgage loans held for sale resulted in a net liability of \$0.1 million and \$2.0 million at September 30, 2011

and December 31, 2010, respectively. For the three and nine months ended September 30, 2011, we recognized income of \$0.1 million and \$1.9 million, respectively, relating to marking these best-efforts contracts and the related mortgage loans held for sale to market. For the three and nine months ended September 30, 2010, we recognized income of less than \$0.1 million and \$0.7 million, respectively, relating to marking these best-efforts contracts and the related mortgage loans held for sale to market.

The notional amounts of both the FMBSs and the related mortgage loans held for sale were \$30.0 million and \$29.5 million, respectively, at September 30, 2011, and \$2.0 million and \$1.9 million, respectively, at December 31, 2010. The FMBSs are classified and accounted for as non-designated derivative instruments, with gains and losses recorded in current earnings. As of September 30, 2011 and December 31, 2010, the related fair value adjustment for marking these FMBSs to market resulted in a liability of \$1.0 million and an asset of \$0.1 million, respectively. For the three and nine months ended September 30, 2011, we recognized expense of \$0.9 million and \$1.0 million, respectively, relating to marking these FMBSs to market. For the three and nine months ended September 30, 2010, we recognized income of \$1.3 million and expense of \$0.2 million, respectively, relating

to marking these FMBSs to market.

The following table provides the expected future cash flows and current fair values of borrowings under our credit facilities and mortgage loan origination services that are subject to market risk as interest rates fluctuate, as of September 30, 2011:

(Dollars in thousands)	Weighted Average Interest Rate	Expected Cash Flows by Period							Fair Value 9/30/2011
		2011	2012	2013	2014	2015	Thereafter	Total	
ASSETS:									
Mortgage loans held for sale:									
Fixed rate	4.24 %	\$ 36,763	\$—	\$—	\$—	\$—	\$—	\$36,763	\$36,155
Variable rate	2.97 %	503	—	—	—	—	—	503	511
LIABILITIES:									
Long-term debt — fixed rate	8.32 %	\$ 86	\$41,803	\$391	\$424	\$459	\$203,887	\$247,050	\$222,802
Long-term debt — variable rate	4.00 %	5,264	26,394	—	—	—	—	31,658	31,658

ITEM 4: CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

An evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended) was performed by the Company's management, with the participation of the Company's principal executive officer and principal financial officer. Based on that evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

On March 5, 2009, a resident of Florida and an owner of one of our homes filed a complaint in the United States District Court for the Southern District of Ohio, on behalf of himself and other similarly situated owners and residents of homes in the United States or alternatively in Florida, against the Company and certain other identified and unidentified parties (the "Initial Action"). The plaintiff alleged that the Company built his home with defective drywall, manufactured and supplied by certain of the defendants, that contains sulfur or other organic compounds capable of harming the health of individuals and damaging property. The plaintiff alleged physical and economic damages and sought legal and equitable relief, medical monitoring and attorney's fees. The Company filed a responsive pleading on or about April 30, 2009. This case was consolidated with other similar actions not involving the Company and transferred to the Eastern District of Louisiana pursuant to an order from the United States Judicial Panel on Multidistrict Litigation for coordinated pre-trial proceedings (collectively, the "In Re: Chinese Manufactured Drywall Product Liability Litigation"). In connection with the administration of the In Re: Chinese Manufactured Drywall Product Liability Litigation, the same homeowner and eight other homeowners were named as plaintiffs in omnibus class action complaints filed in and after December 2009 against certain identified manufacturers of drywall and others (including the Company), including one homeowner named as a plaintiff in an omnibus class action complaint filed in March 2010 against various unidentified manufacturers of drywall and others (including the Company) (collectively, the "MDL Omnibus Actions"). As they relate to the Company, the Initial Action and the MDL Omnibus Actions address substantially the same claims and seek substantially the same relief. The Company has entered into agreements with several of the homeowners named as plaintiffs pursuant to which the Company agreed to make repairs to their homes consistent with repairs made to the homes of other homeowners (as described in Note 9). As a result of these agreements, the Initial Action has been resolved and dismissed, and five of the eight other homeowners named as plaintiffs in omnibus class action complaints have dismissed their claims against the Company. The Company intends to vigorously defend against the claims of the remaining plaintiffs. Given the inherent uncertainties in this litigation, as of September 30, 2011, no accrual has been recorded (other than the accrual for repairs described in Note 9) because we cannot make a determination as to the probability of a loss resulting from this matter or estimate the range of possible loss, if any. There can be no assurance that the ultimate resolution of the MDL Omnibus Actions, or any other actions or claims relating to defective drywall that may be asserted in the future, will not have a material adverse effect on our results of operations, financial condition, and cash flows. Please refer to Note 9 for further information on this matter.

The Company and certain of its subsidiaries have been named as defendants in other claims, complaints and legal actions which are routine and incidental to our business. Certain of the liabilities resulting from these other matters are covered by insurance. While management currently believes that the ultimate resolution of these other matters, individually and in the aggregate, will not have a material effect on the Company's financial position, results of operations and cash flows, such matters are subject to inherent uncertainties. The Company has recorded a liability to provide for the anticipated costs, including legal defense costs, associated with the resolution of these other matters. However, there exists the possibility that the costs to resolve these other matters could differ from the recorded estimates and, therefore, have a material effect on the Company's net income for the periods in which the matters are resolved.

Item 1A. Risk Factors

There have been no material changes to the risk factors appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and in Part II of our Quarterly Report on Form 10-Q for the six months ended June 30, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Recent Sales of Unregistered Securities — None.

(b) Use of Proceeds — Not Applicable.

(c) Purchases of Equity Securities

There were no purchases made by, or on behalf of, the Company or any “affiliated purchaser” (as defined in Rule 10b-18(a) (3) under the Securities Exchange Act of 1934, as amended) of the Company's equity securities during the quarter ended September 30, 2011. As discussed in Note 11 to our Unaudited Condensed Consolidated Financial Statements, as a result of the deficit in our restricted payments basket under the indenture governing our 2012 Senior Notes and the indenture governing our 2018 Senior Notes, we are currently restricted from repurchasing any of our common or preferred shares.

Item 3. Defaults Upon Senior Securities - None.

Item 5. Other Information - None.

Item 6. Exhibits

The exhibits required to be filed herewith are set forth below.

Exhibit Number	Description
31.1	Certification by Robert H. Schottenstein, Chief Executive Officer, pursuant to Item 601 of Regulation S-K as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
31.2	Certification by Phillip G. Creek, Chief Financial Officer, pursuant to Item 601 of Regulation S-K as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
32.1	Certification by Robert H. Schottenstein, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
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101.INS	XBRL Instance Document. (Furnished herewith.)
101.SCH	XBRL Taxonomy Extension Schema Document. (Furnished herewith.)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document. (Furnished herewith.)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document. (Furnished herewith.)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document. (Furnished herewith.)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. (Furnished herewith.)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

M/I Homes, Inc.
(Registrant)

Date: November 4,
2011

By: /s/ Robert H. Schottenstein
Robert H. Schottenstein
Chairman, Chief Executive Officer and
President
(Principal Executive Officer)

Date: November 4,
2011

By: /s/ Ann Marie W. Hunker
Ann Marie W. Hunker
Vice President, Corporate Controller
(Principal Accounting Officer)

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