M I HOMES INC
Form 10-Q
August 03, 2012

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2012

o 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 X 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 X 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	X
Non-accelerated filer (Do not check if a smaller reporting company)		Smaller reporting company	

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: 18,228,100 shares outstanding as of July 30, 2012.

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

(Dollars in thousands, except par values)	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS:		
Cash and cash equivalents	$44,297	$59,793
Restricted cash	12,593	41,334
Mortgage loans held for sale	49,779	57,275
Inventory	521,956	466,772
Property and equipment - net	12,902	14,358
Investment in Unconsolidated LLCs	10,904	10,357
Other assets	18,329	14,596
TOTAL ASSETS	$670,760	$664,485
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable	$51,307	$41,256
Customer deposits	10,508	4,181
Other liabilities	37,854	39,348
Community development district ("CDD") obligations	5,326	5,983
Obligation for consolidated inventory not owned	6,040	2,944
Note payable bank - financial services operations	46,343	52,606
Note payable - other	10,766	5,801
Senior notes	227,470	239,016
TOTAL LIABILITIES	395,614	391,135
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 June 30, 2012 and December 31, 2011	221	221
Additional paid-in capital	139,271	139,943
Retained earnings	103,719	103,701
Treasury shares - at cost - 3,242,024 and 3,365,366 shares, respectively, at June 30, 2012 and December 31, 2011	(64,390)	(66,840)
TOTAL SHAREHOLDERS' EQUITY	275,146	273,350
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$670,760	$664,485

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In thousands, except per share amounts)	Three Months Ended June 30, 2012 (Unaudited)	Three Months Ended June 30, 2011 (Unaudited)	Six Months Ended June 30, 2012 (Unaudited)	Six Months Ended June 30, 2011 (Unaudited)
Revenue	$170,994	$137,444	$302,119	$248,014
Costs and expenses:				
Land and housing	137,111	114,043	244,441	206,617
Impairment of inventory and investment in Unconsolidated LLCs	472	5,445	567	16,316
General and administrative	13,826	12,766	26,283	24,168
Selling	12,825	10,754	23,836	19,408
Interest	3,461	3,465	8,067	7,500
Total costs and expenses	167,695	146,473	303,194	274,009
Income (loss) before income taxes	3,299	(9,029)	(1,075)	(25,995)
Provision (benefit) for income taxes	95	115	(1,093)	188
Net income (loss)	$3,204	$(9,144)	$18	$(26,183)
Earnings (loss) per common share:				
Basic	$0.17	$(0.49)	$—	$(1.40)
Diluted	$0.17	$(0.49)	$—	$(1.40)
Weighted average shares outstanding:				
Basic	18,833	18,711	18,803	18,663
Diluted	19,031	18,711	18,998	18,663

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30, 2012 (Unaudited)							
	Preferred Shares		Common Shares					
(Dollars in thousands)	Shares Outstanding	Amount	Shares Outstanding	Amount	Additional Paid-in Capital	Retained Earnings	Treasury Shares	Total Shareholders' Equity
Balance at December 31, 2011	4,000	$96,325	18,736,357	$ 221	$139,943	$103,701	$(66,840)	$ 273,350
Net income	—	—	—	—	—	18	—	18
Stock options exercised	—	—	90,813	—	(1,064)	—	1,804	740
Stock-based compensation expense	—	—	—	—	964	—	—	964
Deferral of executive and director compensation	—	—	—	—	74	—	—	74
Executive and director deferred compensation distributions	—	—	32,529	—	(646)	—	646	—
Balance at June 30, 2012	4,000	$96,325	18,859,699	$ 221	$139,271	$103,719	$(64,390)	$ 275,146

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2012	2011
(Dollars in thousands)	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES:		
Net income (loss)	$18	$(26,183)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Inventory valuation adjustments and abandoned land transaction write-offs	823	15,637
Impairment of investment in Unconsolidated LLCs	—	979
Bargain purchase gain	(1,219)	—
Mortgage loan originations	(216,055)	(164,123)
Proceeds from the sale of mortgage loans	223,655	173,861
Fair value adjustment of mortgage loans held for sale	(104)	(2,151)
Depreciation	2,808	2,517
Amortization of intangibles, debt discount and debt issue costs	1,178	1,271
Stock-based compensation expense	964	1,042
Deferred income tax benefit (expense)	143	(10,312)
Deferred tax asset valuation (benefit) expense	(143)	10,312
Other	1	(181)
Change in assets and liabilities:		
Cash held in escrow	(15)	(3,731)
Inventory	(47,557)	(23,063)
Other assets	(1,666)	1,722
Accounts payable	8,975	13,438
Customer deposits	6,136	1,911
Accrued compensation	(1,431)	(1,171)
Other liabilities	(40)	(294)
Net cash used in operating activities	(23,529)	(8,519)
INVESTING ACTIVITIES:		
Change in restricted cash	28,756	(23,248)
Purchase of property and equipment	(252)	(709)
Acquisition, net of cash acquired	(4,707)	(4,654)
Investment in Unconsolidated LLCs	(563)	(454)
Return of investment from Unconsolidated LLCs	—	21
Net cash provided by (used in) investing activities	23,234	(29,044)
FINANCING ACTIVITIES:		
Repayment of senior notes, including transaction costs	(41,443)	—
Net proceeds from issuance of senior notes	29,700	—
Repayments of bank borrowings - net	(6,263)	(64)
Proceeds from (repayments of) note payable-other and CDD bond obligations	4,965	(52)
Debt issue costs	(2,900)	(220)
Proceeds from exercise of stock options	740	1,433
Excess tax deficiency from stock-based payment arrangements	—	158
Net cash (used in) provided by financing activities	(15,201)	1,255
Net decrease in cash and cash equivalents	(15,496)	(36,308)

Cash and cash equivalents balance at beginning of period	59,793	81,208
Cash and cash equivalents balance at end of period	$44,297	$44,900
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest — net of amount capitalized	$7,234	$6,453
Income taxes	$212	$219
NON-CASH TRANSACTIONS DURING THE PERIOD:		
Community development district infrastructure	$(657)	$(473)
Consolidated inventory not owned	$3,096	$547
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, 2011 (the “2011 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 2011 Form 10-K, 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 Statements of Cash Flows for the six months ended June 30, 2011 have been reclassified to conform to the six months ended June 30, 2012 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 Company adopted this standard on January 1, 2012 and the adoption did not 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 June 30, 2012 and December 31, 2011:

(In thousands)	June 30, 2012	December 31, 2011
Homebuilding	$27,914	$43,539
Financial services	16,383	16,254
Unrestricted cash and cash equivalents	$44,297	$59,793
Restricted cash	12,593	41,334
Total cash, cash equivalents and restricted cash	$56,890	$101,127

Restricted cash at June 30, 2012 consists of homebuilding cash the Company had pledged as collateral in accordance with the five secured credit agreements for the issuance of letters of credit outside of the Credit Facility to which the Company is a party (collectively, the "Letter of Credit Facilities"). The reduction in restricted cash at June 30, 2012 compared to December 31, 2011 was primarily the result of an amendment dated January 31, 2012 (the "2012 Amendment") to the Company's $140 million secured revolving credit facility (the "Credit Facility"). As a result of the 2012 Amendment, the Company was able to release $25.0 million of restricted cash that had been pledged to the lenders under the Credit Facility.

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 company 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.

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 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. Uncommitted IRLCs are considered derivative instruments and are fair value adjusted, with the resulting gain or loss recorded in current earnings.

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.

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 FMBSs are classified and accounted for as non-designated derivative instruments, with gains and losses recorded in current earnings.

The table below shows the notional amounts of our financial instruments at June 30, 2012 and December 31, 2011:

Description of financial instrument (in thousands)	June 30, 2012	December 31, 2011
Best efforts contracts and related committed IRLCs	$2,989	$1,088
Uncommitted IRLCs	35,322	25,912
FMBSs related to uncommitted IRLCs	36,000	26,000
Best efforts contracts and related mortgage loans held for sale	3,944	14,058
FMBSs related to mortgage loans held for sale	44,000	42,000
Mortgage loans held for sale covered by FMBSs	44,258	42,227

The table below shows the level and measurement of assets and liabilities measured on a recurring basis at June 30, 2012 and December 31, 2011:

Description of Financial Instrument (in thousands)	Fair Value Measurements June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage loans held for sale	$49,779	$—	$49,779	$—
Forward sales of mortgage-backed securities	(557)	—	(557)	—
Interest rate lock commitments	345	—	345	—
Best-efforts contracts	(124)	—	(124)	—
Total	$49,443	$—	$49,443	$—
Description of Financial Instrument (in thousands)	**Fair Value Measurements December 31, 2011**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Mortgage loans held for sale	$57,275	$—	$57,275	$—
Forward sales of mortgage-backed securities	(470)	—	(470)	—
Interest rate lock commitments	356	—	356	—
Best-efforts contracts	(129)	—	(129)	—
Total	$57,032	$—	$57,032	$—

The following table sets forth the amount of (loss) gain recognized, within our revenue in the Unaudited Condensed Consolidated Statements of Operations, on assets and liabilities measured on a recurring basis for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
Description (in thousands)	2012	2011	2012	2011
Mortgage loans held for sale	$700	$119	$103	$2,150
Forward sales of mortgage-backed securities	(852)	(34)	(87)	16
Interest rate lock commitments	34	182	(13)	228
Best-efforts contracts	(64)	(80)	7	(275)

Total (loss) gain recognized	$(182)	$187	$10	$2,119

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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 (except for mortgage loans held for sale which is disclosed as a separate line item):

	Asset Derivatives June 30, 2012		Liability Derivatives June 30, 2012	
Description of Derivatives	Balance Sheet Location	Fair Value (in thousands)	Balance Sheet Location	Fair Value (in thousands)
Forward sales of mortgage-backed securities	Other assets	$—	Other liabilities	$557
Interest rate lock commitments	Other assets	345	Other liabilities	—
Best-efforts contracts	Other assets	—	Other liabilities	124
Total fair value measurements		$345		$681

	Asset Derivatives December 31, 2011		Liability Derivatives December 31, 2011	
Description of Derivatives	Balance Sheet Location	Fair Value (in thousands)	Balance Sheet Location	Fair Value (in thousands)
Forward sales of mortgage-backed securities	Other assets	$—	Other liabilities	$470
Interest rate lock commitments	Other assets	356	Other liabilities	—
Best-efforts contracts	Other assets	—	Other liabilities	129
Total fair value measurements		$356		$599

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 future 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. Our overall absorption rate was 1.7 per community per month for the year ended December 31, 2011 and 2.2 per community per month for the first six months of 2012. 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, using weighted average sales price increases of 1% in 2013 and 2% in 2014 and beyond.

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. The Company used a weighted average increase of 1% assumed costs in 2013 and 2% in 2014 and beyond.

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 June 30, 2012, 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 tables below show the level and measurement of assets and liabilities measured on a non-recurring basis as of and for the six months ended June 30, 2012 and as of and for the year ended December 31, 2011:

Description of asset or liability (In thousands)	Fair Value Measurements June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses For The Six Months Ended June 30, 2012
Inventory	$607	$—	$—	$ 607	$567
Investments in Unconsolidated LLCs	—	—	—	—	—
Total fair value measurements	$607	$—	$—	$ 607	$567

Description of asset or liability (In thousands)	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable	Significant Unobservable Inputs	Total Losses For The Year Ended

	December 31, 2011	(Level 1)	Inputs (Level 2)	(Level 3)	December 31, 2011
Inventory	$43,659	$—	$—	$ 43,659	$20,964
Investments in Unconsolidated LLCs	970	—	—	970	1,029
Total fair value measurements	$44,629	$—	$—	$ 44,629	$21,993

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 June 30, 2012 and December 31, 2011. 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).

	June 30, 2012		December 31, 2011	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash, cash equivalents and restricted cash	$56,890	$56,890	$101,127	$101,127
Mortgage loans held for sale	49,779	49,779	57,275	57,275
Split dollar life insurance policies	719	671	719	655
Notes receivable	823	785	851	753
Commitments to extend real estate loans	345	345	356	356
Liabilities:				
Note payable - banks	46,343	46,343	52,606	52,606
Mortgage notes payable	5,345	5,905	5,521	6,076
Senior Notes	227,470	236,613	239,016	218,925
Best-efforts contracts for committed IRLCs and mortgage loans held for sale	124	124	470	470
Forward sales of mortgage-backed securities	557	557	129	129
Off-Balance Sheet Financial Instruments:				
Letters of credit	—	407	—	792

The following methods and assumptions were used by the Company in estimating its fair value disclosures of financial instruments at June 30, 2012 and December 31, 2011:

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, and Senior Notes. The fair value of these financial instruments was determined based upon market quotes at June 30, 2012 and December 31, 2011. 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.

Split Dollar Life Insurance Policies 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 our Credit Facility) or LIBOR (for M/I Financial Corp.'s $70 million secured mortgage warehousing agreement dated April 18, 2011, as amended on March 23, 2012 (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 $29.0 million and $35.8 million represent potential commitments at June 30, 2012 and December 31, 2011, 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.

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NOTE 4. Inventory

A summary of the Company's inventory as of June 30, 2012 and December 31, 2011 is as follows:

(In thousands)	June 30, 2012	December 31, 2011
Single-family lots, land and land development costs	$242,377	$242,372
Land held for sale	9,889	—
Homes under construction	218,140	181,483
Model homes and furnishings - at cost (less accumulated depreciation: June 30, 2012 - $4,354; December 31, 2011 - $4,340)	36,111	27,662
Community development district infrastructure	5,326	5,983
Land purchase deposits	4,073	2,676
Consolidated inventory not owned	6,040	6,596
Total inventory	$521,956	$466,772

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 include homes that are in various stages of construction. As of June 30, 2012 and December 31, 2011, we had 578 homes (with a carrying value of $67.6 million) and 573 homes (with a carrying value of $85.5 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.

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 six months ended June 30, 2012 and 2011 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2012	2011	2012	2011
Impairment of operating communities:				
Midwest	$10	$114	$10	$2,982
Southern	—	101	—	1,865
Mid-Atlantic	—	17	—	17
Total impairment of operating communities (a)	$10	$232	$10	$4,864
Impairment of future communities:				
Midwest	$462	$4,234	$462	$6,378
Southern	—	—	—	3,455
Mid-Atlantic	—	—	—	—
Total impairment of future communities (a)	$462	$4,234	$462	$9,833
Impairment of land held for sale:				
Midwest	$—	$—	$95	$—
Southern	—	—	—	590
Mid-Atlantic	—	—	—	—
Total impairment of land held for sale (a)	$—	$—	$95	$590
Option deposits and pre-acquisition costs write-offs:				
Midwest	$34	$1	$36	$22
Southern	103	29	110	37
Mid-Atlantic	88	12	110	241
Total option deposits and pre-acquisition costs write-offs (b)	$225	$42	$256	$300
Impairment of investments in Unconsolidated LLCs:				
Midwest	$—	$979	$—	$979
Southern	—	—	—	50
Mid-Atlantic	—	—	—	—
Total impairment of investments in Unconsolidated LLCs (a)	$—	$979	$—	$1,029
Total impairments and write-offs of option deposits and pre-acquisition costs	$697	$5,487	$823	$16,616

(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 for the three and six months ended June 30, 2012 and 2011 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2012	2011	2012	2011
Capitalized interest, beginning of period	$18,170	$19,899	$18,869	$20,075
Interest capitalized to inventory	2,688	2,678	4,554	4,840
Capitalized interest charged to cost of sales	(2,891)	(2,819)	(5,456)	(5,157)
Capitalized interest, end of period	$17,967	$19,758	$17,967	$19,758
Interest incurred — net	$6,149	$6,143	$12,621	$12,340

NOTE 7. Investment in Unconsolidated Limited Liability Companies

At June 30, 2012, the Company had interests ranging from 33% to 50% in Unconsolidated LLCs that do not meet the criteria of variable interest entities. 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 June 30, 2012 was the amount invested of

$10.9 million. Included in the Company's investment in Unconsolidated LLCs at both June 30, 2012 and December 31, 2011 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 generally offers a limited warranty program in conjunction with a thirty-year transferable structural limited warranty on homes closed after September 30, 2007. This limited 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. 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 six months ended June 30, 2012 and 2011 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2012	2011	2012	2011
Warranty accrual, beginning of period	$8,548	$7,925	$9,025	$8,335
Warranty expense on homes delivered during the period	1,333	1,100	2,375	1,969
Changes in estimates for pre-existing warranties	147	30	90	(100)
Settlements made during the period	(1,295)	(1,220)	(2,757)	(2,369)
Warranty accrual, end of period	$8,733	$7,835	$8,733	$7,835

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 $13.4 million and $53.0 million were covered under the above guarantees as of June 30, 2012 and December 31, 2011, respectively. A portion of the revenue paid to M/I Financial for providing the guarantees on the above loans was deferred at June 30, 2012, 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 during the six months ended June 30, 2012, but has received inquiries concerning underwriting matters from purchasers of its loans concerning certain loans under those agreements. The total of these loans was approximately $3.3 million and $4.6 million at June 30, 2012 and December 31, 2011, respectively. The risk associated with the guarantees above is offset by the value of the underlying assets.

M/I Financial has also guaranteed the collectability of certain loans to third party insurers (U.S. Department of Housing and Urban Development and U.S. Veterans Administration) of those loans for periods ranging from five to thirty years. As of June 30, 2012 and December 31, 2011, the total of all loans indemnified to third party insurers relating to the above agreements was $1.2 million and $1.4 million, respectively. 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 Company has recorded a liability relating to the guarantees described above totaling $2.6 million and $2.8 million at June 30, 2012 and December 31, 2011, respectively, which is management's best estimate of the Company's liability.

At June 30, 2012, the Company had outstanding $230.0 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 jointly and severally 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 June 30, 2012, the Company had outstanding approximately $61.0 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) $19.1 million of performance and maintenance bonds and $22.3 million of performance letters of credit that serve as completion bonds for land development work in progress; (2) $9.8 million of financial letters of credit, of which $2.9 million represent deposits on land and lot purchase agreements; and (3) $9.8 million of financial bonds.

As of June 30, 2012, the Company has identified 93 homes that have been confirmed as having defective drywall installed by our subcontractors. All of these homes are located in Florida. As of June 30, 2012, we have completed the repair of 88 homes and are in the process of repairing two homes. The remaining three homeowners have not granted us authority 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 $0.8 million, which is included in Other liabilities on the Company's 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 we identify additional homes with defective drywall, we may increase the accrual for costs of repair attributable to defective drywall. The Company has made demand for 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 June 30, 2012, the Company also had options and contingent purchase agreements to acquire land and developed lots with an aggregate purchase price of approximately $165.3 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. The Initial Action 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 nine 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 seven of the nine other homeowners named as plaintiffs in omnibus class action complaints have dismissed their claims against the Company. One of the two remaining plaintiffs has also filed a complaint in Florida state court asserting essentially the same claims and seeking substantially the same relief as asserted in the MDL Omnibus Action. The MDL Court recently preliminarily approved a global class action settlement, which is intended to resolve all Chinese Drywall-related claims of and against those who participate in the settlement. A final fairness and approval hearing is currently scheduled for November 2012. The Company intends to vigorously defend against the claims of any plaintiffs who are not bound by or elect to opt out of the class action settlement. Given the inherent uncertainties in this litigation, as of June 30, 2012, 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 June 30, 2012 and December 31, 2011, we had $0.3 million and $0.5 million reserved for legal expenses, respectively.

NOTE 11. Debt

Notes Payable - Homebuilding

At June 30, 2012, borrowing availability under the Credit Facility was $68.7 million in accordance with the borrowing base calculation, and there were no borrowings outstanding and $16.7 million of letters of credit outstanding under the Credit Facility, leaving net remaining borrowing availability of $52.0 million. At June 30, 2012, the Company had pledged $202.6 million in aggregate book value of inventory to secure any borrowings and letters of credit outstanding under the Credit Facility. At June 30, 2012, the Company was in compliance with all financial covenants of the Credit Facility.

At June 30, 2012, there was $12.2 million of outstanding letters of credit under the Company's five secured Letter of Credit Facilities, which was collateralized with $12.5 million of the Company's cash.

Notes Payable — Financial Services

At June 30, 2012, M/I Financial had $46.3 million outstanding under the MIF Mortgage Warehousing Agreement, and was in compliance with all financial covenants of that agreement.

Senior Notes

At maturity, on April 2, 2012, the Company repaid the $41.4 million aggregate principal amount outstanding of its 6.875% Senior Notes due 2012 (the “2012 Senior Notes”) . On May 8, 2012, the Company closed on its private placement of an additional $30.0 million aggregate principal amount of the 2018 Senior Notes which were subsequently exchanged for publicly registered notes in July 2012. The additional notes were issued under the indenture pursuant to which the Company's outstanding $200.0 million aggregate principal amount of 2018 Senior Notes (the "Original Senior Notes") were issued and have substantially identical terms to the terms of the Original Senior Notes. As of June 30, 2012, we had $230.0 million of our 2018 Senior Notes outstanding. 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 2018 Senior Notes are fully and unconditionally guaranteed on a senior unsecured basis 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, and certain subsidiaries that are otherwise designated by the Company as Unrestricted Subsidiaries in accordance with the terms of the indenture.

The indenture governing our 2018 Senior Notes contains 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 the indenture, is less than zero, we are restricted from making certain payments, including dividends, as well as from repurchasing any shares. At June 30, 2012, the restricted payments basket was

$(11.6) 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 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. Earnings (Loss) Per Share

The table below presents a reconciliation between basic and diluted weighted average shares outstanding, net income (loss) available to common shareholders and basic and diluted income (loss) per share for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share amounts)	2012	2011	2012	2011
Basic weighted average shares outstanding	18,833	18,711	18,803	18,663
Effect of dilutive securities:				
Stock option awards	74	—	61	—
Deferred compensation awards	124	—	134	—
Diluted weighted average shares outstanding	19,031	18,711	18,998	18,663
Net income (loss) available to common shareholders	$3,204	$(9,143)	$18	$(26,183)
Earnings (loss) per common share				
Basic	$0.17	$(0.49)	$—	$(1.40)
Diluted	$0.17	$(0.49)	$—	$(1.40)
Anti-dilutive equity awards not included in the calculation of diluted earnings per common share	1,635	2,206	1,287	2,201

The Company's outstanding preferred stock meets the definition of a participating security and accordingly the application of the two-class method in computing earnings per share must be applied in periods with net income. As participation by our preferred shareholders is only entitled upon the occurrence of a contingent event, no adjustment to net income available to common shareholders will be reflected until the contingent event has occurred. See further explanation in Note 11 under Senior Notes regarding our restriction on paying dividends to our preferred shareholders.

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 in 2006 through 2011. 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 back to prior years or carried forward to future years to recover the deferred tax assets.

The Company evaluates its deferred tax assets, including net operating results, 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 pre-tax 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 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. During the six months ended June 30, 2012, the Company reduced its valuation allowance by $0.1 million, for a total valuation allowance recorded of $140.7 million, against its deferred tax assets. 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 June 30, 2012, the Company had federal net operating loss carryforwards of approximately $84.9 million and federal credit carryforwards of $3.7 million. These federal carryforward benefits will begin to expire in 2028. The Company also had state net operating loss benefits of $15.8 million, with $8.6 million expiring between 2020 and 2027, and $7.2 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 long-term 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	Raleigh, North Carolina
Chicago, Illinois	San Antonio, Texas	

In April 2012, we expanded our Houston, Texas operations by acquiring the assets of a privately-held homebuilder based in Houston, Texas. In connection with this acquisition, we recorded a $1.2 million bargain purchase gain in accordance with generally accepted accounting principles as the cash purchase price was less than the fair market value of the assets acquired.

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 income (loss) and interest expense for the three and six months ended June 30, 2012 and 2011, as well as the Company’s loss before income taxes for such periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2012	2011	2012	2011
Revenue:				
Midwest homebuilding	$63,026	$58,878	$119,979	$109,350
Southern homebuilding	43,499	31,900	72,572	48,836
Mid-Atlantic homebuilding	59,545	43,371	100,328	83,333
Financial services	4,924	3,295	9,240	6,495
Total revenue	$170,994	$137,444	$302,119	$248,014
Operating income (loss):				
Midwest homebuilding (a)	$3,961	$(3,669)	$5,072	$(8,289)
Southern homebuilding (a)	2,808	(58)	3,693	(6,692)
Mid-Atlantic homebuilding (a)	3,248	1,857	3,709	3,050
Financial services	2,210	1,612	4,646	3,234
Less: Corporate selling, general and administrative expenses	(5,467)	(5,306)	(10,128)	(9,798)
Total operating income (loss)	$6,760	$(5,564)	$6,992	$(18,495)
Interest expense:				
Midwest homebuilding	$1,211	$1,440	$2,937	$3,321
Southern homebuilding	743	661	1,545	1,197
Mid-Atlantic homebuilding	1,196	1,193	2,906	2,541
Financial services	311	171	679	441
Total interest expense	$3,461	$3,465	$8,067	$7,500
Income (loss) before income taxes	$3,299	$(9,029)	$(1,075)	$(25,995)

(a) For the three months ended June 30, 2012 and 2011, 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 $0.7 million and $5.5 million, respectively. These charges reduced operating income by $0.5 million and $5.3 million in the Midwest region for the three months ended June 30, 2012 and 2011, respectively, and $0.1 million in the Southern region and less than $0.1 million in the Mid-Atlantic region for both the three months ended June 30, 2012 and 2011.

For the six months ended June 30, 2012 and 2011, 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 $0.8 million and $16.6 million, respectively. These charges reduced operating income by $0.6 million and $10.4 million in the Midwest region, $0.1 million and $6.0 million in the Southern region and $0.1 million and $0.3 million in the Mid-Atlantic region for the six months ended June 30, 2012 and 2011, respectively.

The following tables show total assets by segment:

June 30, 2012					
(In thousands)	Midwest	Southern	Mid-Atlantic	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	$840	$1,250	$1,983	$—	$4,073
Inventory (a)	202,475	113,837	201,571	—	517,883
Investments in Unconsolidated LLCs	5,232	5,672	—	—	10,904
Other assets	6,972	4,531	9,267	117,130	137,900
Total assets	$215,519	$125,290	$212,821	$117,130	$670,760

December 31, 2011					
(In thousands)	Midwest	Southern	Mid-Atlantic	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	$252	$1,516	$907	$—	$2,675
Inventory (a)	200,760	89,586	173,751	—	464,097
Investments in Unconsolidated LLCs	5,157	5,200	—	—	10,357
Other assets	3,865	2,858	9,861	170,772	187,356
Total assets	$210,034	$99,160	$184,519	$170,772	$664,485

(a) Inventory includes single-family lots, land and land development costs; land held for sale; homes under 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 June 30, 2012, 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, and certain subsidiaries that are otherwise designated by the Company as Unrestricted Subsidiaries in accordance with the terms of the indenture.

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

	Three Months Ended June 30, 2012				
(In thousands)	M/I Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$—	$166,070	$4,924	$—	$170,994
Costs and expenses:					
Land and housing	—	137,111	—	—	137,111
Impairment of inventory and investment in Unconsolidated LLCs	—	472	—	—	472
General and administrative	—	11,033	2,793	—	13,826
Selling	—	12,825	—	—	12,825
Interest	—	3,150	311	—	3,461
Total costs and expenses	—	164,591	3,104	—	167,695
Income (loss) before income taxes	—	1,479	1,820	—	3,299
(Benefit) provision for income taxes	—	(519)	614	—	95
Equity in subsidiaries	3,204	—	—	(3,204)	—
Net income (loss)	$3,204	$1,998	$1,206	$(3,204)	$3,204

	Three Months Ended June 30, 2011				
(In thousands)	M/I Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$—	$134,149	$3,295	$—	$137,444
Costs and expenses:					
Land and housing	—	114,043	—	—	114,043
Impairment of inventory and investment in Unconsolidated LLCs	—	5,445	—	—	5,445
General and administrative	—	10,994	1,772	—	12,766
Selling	—	10,754	—	—	10,754
Interest	—	3,294	171	—	3,465
Total costs and expenses	—	144,530	1,943	—	146,473
(Loss) income before income taxes	—	(10,381)	1,352	—	(9,029)
(Benefit) provision for income taxes	—	(282)	397	—	115
Equity in subsidiaries	(9,144)	—	—	9,144	—
Net (loss) income	$(9,144)	$(10,099)	$955	$9,144	$(9,144)

(In thousands)	Six Months Ended June 30, 2012 M/I Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$—	$292,879	$9,240	$—	$302,119
Costs and expenses:					
Land and housing	—	244,441	—	—	244,441
Impairment of inventory and investment in Unconsolidated LLCs	—	567	—	—	567
General and administrative	—	21,513	4,770	—	26,283
Selling	—	23,835	1	—	23,836
Interest	—	7,388	679	—	8,067
Total costs and expenses	—	297,744	5,450	—	303,194
(Loss) income before income taxes	—	(4,865)	3,790	—	(1,075)
(Benefit) provision for income taxes	—	(2,400)	1,307	—	(1,093)
Equity in subsidiaries	18	—	—	(18)	—
Net income (loss)	$18	$(2,465)	$2,483	$(18)	$18

(In thousands)	Six Months Ended June 30, 2011 M/I Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$—	$241,519	$6,495	$—	$248,014
Costs and expenses:					
Land and housing	—	206,617	—	—	206,617
Impairment of inventory and investment in Unconsolidated LLCs	—	16,316	—	—	16,316
General and administrative	—	20,692	3,476	—	24,168
Selling	—	19,408	—	—	19,408
Interest	—	7,059	441	—	7,500
Total costs and expenses	—	270,092	3,917	—	274,009
(Loss) income before income taxes	—	(28,573)	2,578	—	(25,995)
(Benefit) provision for income taxes	—	(637)	825	—	188
Equity in subsidiaries	(26,183)	—	—	26,183	—
Net (loss) income	$(26,183)	$(27,936)	$1,753	$26,183	$(26,183)

CONDENSED CONSOLIDATING BALANCE SHEET

(In thousands)	June 30, 2012 M/I Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS:					
Cash and cash equivalents	$—	$27,914	$ 16,383	$ —	$44,297
Restricted cash	—	12,593	—	—	12,593
Mortgage loans held for sale	—	—	49,779	—	49,779
Inventory	—	521,956	—	—	521,956
Property and equipment - net	—	12,812	90	—	12,902
Investment in Unconsolidated LLCs	—	—	10,904	—	10,904
Investment in subsidiaries	379,727	—	—	(379,727)	—
Intercompany	115,581	(105,709)	(9,872)	—	—
Other assets	7,308	10,255	766	—	18,329
TOTAL ASSETS	$502,616	$479,821	$ 68,050	$ (379,727)	$670,760
LIABILITIES AND SHAREHOLDERS' EQUITY					
LIABILITIES:					
Accounts payable	$—	$50,625	$ 682	$ —	$51,307
Customer deposits	—	10,508	—	—	10,508
Other liabilities	—	32,995	4,859	—	37,854
Community development district obligations	—	5,326	—	—	5,326
Obligation for consolidated inventory not owned	—	6,040	—	—	6,040
Note payable bank - financial services operations	—	—	46,343	—	46,343
Note payable - other	—	10,766	—	—	10,766
Senior notes	227,470	—	—	—	227,470
TOTAL LIABILITIES	227,470	116,260	51,884	—	395,614
Shareholders' equity	275,146	363,561	16,166	(379,727)	275,146
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$502,616	$479,821	$ 68,050	$ (379,727)	$670,760

CONDENSED CONSOLIDATING BALANCE SHEET

	December 31, 2011				
(In thousands)	M/I Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS:					
Cash and cash equivalents	$—	$43,539	$ 16,254	$ —	$59,793
Restricted cash	—	41,334	—	—	41,334
Mortgage loans held for sale	—	—	57,275	—	57,275
Inventory	—	466,772	—	—	466,772
Property and equipment - net	—	14,241	117	—	14,358
Investment in Unconsolidated LLCs	—	—	10,357	—	10,357
Investment in subsidiaries	381,709	—	—	(381,709)	—
Intercompany	125,272	(115,058)	(10,214)	—	—
Other assets	5,385	8,455	756	—	14,596
TOTAL ASSETS	$512,366	$459,283	$ 74,545	$ (381,709)	$664,485
LIABILITIES AND SHAREHOLDERS' EQUITY					
LIABILITIES:					
Accounts payable	$—	$40,759	$ 497	$ —	$41,256
Customer deposits	—	4,181	—	—	4,181
Other liabilities	—	33,589	5,759	—	39,348
Community development district obligations	—	5,983	—	—	5,983
Obligation for consolidated inventory not owned	—	2,944	—	—	2,944
Note payable bank - financial services operations	—	—	52,606	—	52,606
Note payable - other	—	5,801	—	—	5,801
Senior notes	239,016	—	—	—	239,016
TOTAL LIABILITIES	239,016	93,257	58,862	—	391,135
Shareholders' equity	273,350	366,026	15,683	(381,709)	273,350
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$512,366	$459,283	$ 74,545	$ (381,709)	$664,485

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2012				
(In thousands)	M/I Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash (used in) provided by operating activities	$—	$ (32,922)	$ 9,393	$ —	$ (23,529)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Restricted cash	—	28,756	—	—	28,756
Purchase of property and equipment	—	(242)	(10)	—	(252)
Acquisition, net of cash acquired	—	(4,707)	—	—	(4,707)
Investments in and advances to Unconsolidated LLC's	—	—	(563)	—	(563)
Return of investment from Unconsolidated LLCs	—	—	—	—	—
Net cash provided by (used in) investing activities	—	23,807	(573)	—	23,234
CASH FLOWS FROM FINANCING ACTIVITIES:					
Repayment of Senior Notes	(41,443)	—	—	—	(41,443)
Repayments of bank borrowings - net	—	—	(6,263)	—	(6,263)
Principal repayments of note payable - other and community development district bond obligations	—	4,965	—	—	4,965
Proceeds from issuance of senior notes	29,700	—	—	—	29,700
Intercompany financing	11,003	(8,606)	(2,397)	—	—
Debt issue costs	—	(2,869)	(31)	—	(2,900)
Proceeds from exercise of stock options	740	—	—	—	740
Excess tax benefits from stock-based payment arrangements	—	—	—	—	—
Net cash used in financing activities	—	(6,510)	(8,691)	—	(15,201)
Net (decrease) increase in cash and cash equivalents	—	(15,625)	129	—	(15,496)
Cash and cash equivalents balance at beginning of period	—	43,539	16,254	—	59,793
Cash and cash equivalents balance at end of period	$—	$ 27,914	$ 16,383	$ —	$ 44,297

	Six Months Ended June 30, 2011				
(In thousands)	M/I Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash (used in) provided by operating activities	$—	$ (20,847)	$ 12,328	$ —	$ (8,519)

CASH FLOWS FROM INVESTING ACTIVITIES:					
Restricted cash	—	(23,248)	—	—	(23,248)
Purchase of property and equipment	—	(699)	(10)	—	(709)
Acquisition, net of cash acquired	—	(4,654)	—	—	(4,654)
Investments in and advances to Unconsolidated LLC's	—	—	(454)	—	(454)
Return of investment from Unconsolidated LLCs	—	—	21	—	21
Net cash used in investing activities	—	(28,601)	(443)	—	(29,044)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Repayments of bank borrowings - net	—	—	(64)	—	(64)
Principal repayments of note payable - other and community development district bond obligations	—	(52)	—	—	(52)
Intercompany financing	(1,591)	6,638	(5,047)	—	—
Debt issue costs	—	(150)	(70)	—	(220)
Proceeds from exercise of stock options	1,433	—	—	—	1,433
Excess tax deficiency from stock-based payment arrangements	158	—	—	—	158
Net cash provided by (used in) financing activities	—	6,436	(5,181)	—	1,255
Net (decrease) increase in cash and cash equivalents	—	(43,012)	6,704	—	(36,308)
Cash and cash equivalents balance at beginning of period	—	71,874	9,334	—	81,208
Cash and cash equivalents balance at end of period	$—	$ 28,862	$ 16,038	$ —	$44,900

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 over 81,500 homes since we commenced homebuilding activities in 1976. The Company's homes are marketed and sold under the M/I Homes, Showcase Homes, TriStone Homes and Triumph 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 t 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, 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. See Note 1 (Summary of Significant Accounting Policies) to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011for additional information about our accounting policies.

We believe that there have been no significant changes to our critical accounting policies during the six months ended June 30, 2012 as compared to those disclosed in 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, 2011 and in our Quarterly Report on Form 10-Q for the three months ended March 31, 2012.

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 long-term 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	Raleigh, North Carolina
Chicago, Illinois	San Antonio, Texas	

In April 2012, we expanded our Houston, Texas operations by acquiring the assets of a privately-held homebuilder.

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 Six Months Ended June 30, 2012

Outlook

During the first half of 2012, we, as well as others in the homebuilding industry, have seen signs that the overall housing market is stabilizing and beginning to recover from the severe housing downturn that began in mid-2006. Historically high affordability of home ownership, particularly when compared to rising rental costs, record-low interest rates for residential consumer mortgage loans and improving trends in the economy, including recent job growth and increased consumer confidence, have helped spur sales activity. Meanwhile, relatively low inventories of homes available for sale in some of our markets helped to moderate prior downward trends in home prices and, in a few of our markets, has helped increase sales prices. These factors are evident in both our 2012 second quarter and first half operating results as we experienced increased traffic, new contracts, homes delivered and backlog, as well as improved sales paces and prices across many of our open communities. In addition, our gross margins, operating margins and operating leverage statistics have also improved when compared to our results from a year ago. Notwithstanding the somewhat healthier environment, we do believe the pace of recovery will be uneven, with local economic and employment dynamics strongly influencing the health or weakness of individual housing markets and even communities within housing markets. In addition, the overall homebuilding industry still faces significant challenges from uncertain macroeconomic conditions, uncertainty regarding job growth, tight residential consumer mortgage lending standards and reduced credit availability for residential consumer mortgage loans, among other factors.

Although the recent positive trends in the homebuilding industry and in our business, in particular, have been encouraging and we expect that the housing market, in general, will continue to gradually strengthen as the economy continues to improve, we are not convinced that all of the negative conditions are completely behind us. With this in mind, we will continue to focus on the following primary strategic business objectives focused on profitability:

- 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
- possessing a meaningful presence in our markets.

Overview

We have historically experienced, and expect to continue to experience, variability in our quarterly results. Our results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results to be expected for the full year.

As a result of the improving operating conditions described above and our continued effort to manage our business with a focus on profitability, we experienced improvements in a number of operational metrics and our financial results for the three and six months ended June 30, 2012.

Operationally, for the quarter ended June 30, 2012, we experienced a 30% increase in our new contracts, a 6% increase in our homes delivered, and a 14% increase in the average sales price of our homes delivered compared to 2011's second quarter. We also experienced a 40% increase in our number of homes in backlog as well as a 50% increase in the overall sales value of our backlog over prior year's second quarter. For the first half of 2012, new contracts increased 23%, homes delivered increased 10%, and the average sales price of our homes delivered increased 9% over the first half of 2011. In addition, we continue to invest in new communities that we believe are helping us in our effort to restore our profitability when and as housing markets improve. During the three months ended June 30, 2012, we opened 12 new communities and closed 10 old communities, and are experiencing higher gross margins in our new communities (19.8%) compared to our legacy communities (15.0%). Of our homes delivered during the second quarter of 2012, 71% of them were in new communities (defined by us as those having opened after January 1, 2009), compared to 51% during the second quarter of 2011.

From a financial perspective for the three and six months ended June 30, 2012, we improved our financial results in several areas. Most notably for the quarter ended June 30, 2012, we achieved net income of $3.2 million, or $0.17 per diluted share, compared to a loss of $9.1 million, or $0.49 loss per share, for the quarter ended June 30, 2011. We also achieved net income for the six month period ended June 30, 2012 of less than $0.1 million compared to a loss of $26.2 million for the same period in 2011. Below is a further description of the additional improvements in our financial results.

- For the quarter ended June 30, 2012, total revenue increased $33.6 million (24%), from $137.4 million in the second quarter of 2011 to $171.0 million in the second quarter of 2012. This increase was attributable to a 6% increase in homes delivered, from 590 in the second quarter of 2011 to 625 in the second quarter of 2012, along with a 14% increase in the average sales price of homes delivered, from $227,000 in the second quarter of 2011 to $259,000 in the second quarter of 2012. We also had $4.2 million of revenue from land sales in 2012's second quarter compared to only $0.1 million in 2011's second quarter. Revenue in our financial services segment increased 48%, from $3.3 million for the quarter ended June 30, 2011 to $4.9 million for the quarter ended June 30, 2012, which was the result of a 17% increase in the number of loans originated, from 448 in the second quarter of 2011 to 522 in the second quarter of 2012.

- Income before taxes for the quarter ended June 30, 2012 was $3.3 million compared to loss before taxes of $9.0 million for the quarter ended June 30, 2011. The $12.3 million increase was primarily due to the increase in revenue described above and lower impairment charges taken during the quarter ended June 30, 2012 compared to the quarter ended June 30, 2011. During the second quarter of 2012, the Company incurred charges totaling $0.7 million related to the impairment of inventory and investment in Unconsolidated LLCs and abandoned land transaction costs, compared to $5.5 million of like charges in the second quarter of 2011. Our adjusted operating gross margin percentage for the three months ended June 30, 2012 increased to 19.8% compared to 17.0% for the three months ended June 30, 2011. Excluding the charges above, the Company earned adjusted pre-tax income from operations of $4.0 million for the quarter ended June 30, 2012, a $7.5 million increase compared to the adjusted pre-tax loss from operations of $3.5 million for 2011's second quarter. Please see the table set forth below which reconciles the non-GAAP financial measures of adjusted operating gross margin and adjusted pre-tax income (loss) from operations to their respective most directly comparable GAAP financial measures, gross margin, and income (loss) from operations before taxes. Driving the $7.5 million increase in adjusted pre-tax income from operations was increased deliveries at a higher average closing price, the increase in gross margin described above, a $0.7 million increase in land sale profit, and $0.8 million net gain on purchase accounting related adjustments related to our April 2012 acquisition, partially offset by a $3.1 million increase in selling, general and administrative expenses. The increase in selling, general and administrative expenses was driven primarily by a $1.4 million increase in variable selling expenses related to the increase in homes delivered; a $1.3 million increase in payroll related expenses; and a $0.4 million increase in expenses related to our sales offices.

- For the six months ended June 30, 2012, total revenue increased $54.1 million (22%), from $248.0 million in the first six months of 2011 to $302.1 million in the first six months of 2012. This increase was attributable to a 10% increase in homes delivered, from 1,029 in the first half of 2011 to 1,132 in the first half of 2012, along with a 9% increase in the average sales price of homes delivered, from $234,000 in the first six months of 2011 to $254,000 in the first six months of 2012. Revenue in our financial services segment increased 42%, from $6.5 million for the six months ended June 30, 2011 to $9.2 million for the six months ended June 30, 2012, primarily due to a 26% increase in the number of loans originated, from 782 in the first six months of 2011 to 983 in the first six months of 2012.

- Loss before income taxes decreased $24.9 million, from $26.0 million for the six months ended June 30, 2011 to $1.1 million for the six months ended June 30, 2012. The 96% decrease in the loss was primarily due to the increase in revenue described above, along with lower impairment charges taken during the first half of 2012 compared to the first half of 2011. During the first six months of 2012, the Company incurred charges totaling $0.8 million related to the impairment of inventory and investment in Unconsolidated LLCs and abandoned land transaction costs, compared to $16.6 million of like charges in the first six months of 2011. Our adjusted operating gross margin percentage for the six months ended June 30, 2012 was 19.1% compared to 16.7% for the six months ended June 30, 2011. The Company had an adjusted pre-tax loss from operations of $0.3 million for the six months ended June 30, 2012, a 97% improvement when compared to 2011's first six month adjusted pre-tax loss from operations of $9.4 million. 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. Driving the $9.1 million reduction in adjusted pre-tax loss from operations was increased deliveries at a higher average closing price, the increase in gross margin described above, a $1.2 million increase in land sale profit, and $0.8 million net gain on purchase accounting related adjustments related to our April 2012 acquisition, partially offset by a $6.5 million increase in selling, general and administrative expenses. The increase in selling, general and administrative expenses was driven primarily by a $2.6 million increase in variable selling expenses related to the increase in homes delivered; a $2.0 million increase in payroll related expenses; a $0.6 million increase in expenses related to our sales offices; a $0.4 million increase in expenses related to our model homes; a $0.3 million increase in advertising expenses; a $0.3 million increase in land related expenses; and a $0.3 million increase in miscellaneous other expenses.

- Our mortgage company's capture rate decreased from 85% for both the three and six months ended June 30, 2011 to 84% and 82% for the three and six months ended June 30, 2012, respectively. Capture rate is influenced by financing availability and can fluctuate up or down from period to period.

- During the six months ended June 30, 2012, we reduced our deferred tax assets by $0.1 million, and we recorded a non-cash valuation allowance against the entire amount of deferred tax assets.

The following table reconciles our adjusted operating gross margin and adjusted pre-tax income (loss) from operations (each of which constitutes a non-GAAP financial measure) for the three and six months ended June 30, 2012 and 2011 to the GAAP financial measures of gross margin and income (loss) from operations before income taxes, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2012	2011	2012	2011
Gross margin	$33,411	$17,956	$57,111	$25,081
Add:				
Impairment of inventory and investment in Unconsolidated LLCs	472	5,445	567	16,316
Adjusted operating gross margin	$33,883	$23,401	$57,678	$41,397
Income (loss) from operations before income taxes	$3,299	$(9,029)	$(1,075)	$(25,995)
Add:				
Impairment of inventory and investment in Unconsolidated LLCs and abandoned land transaction costs	697	5,487	823	16,616
Adjusted pre-tax income (loss) from operations	$3,996	$(3,542)	$(252)	$(9,379)

Adjusted operating gross margin and adjusted pre-tax income (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.

The following table shows, by segment, revenue, operating income (loss) and interest expense for the three and six months ended June 30, 2012 and 2011, as well as the Company's income (loss) before income taxes for such periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2012	2011	2012	2011
Revenue:				
Midwest homebuilding	$63,026	$58,878	$119,979	$109,350
Southern homebuilding	43,499	31,900	72,572	48,836
Mid-Atlantic homebuilding	59,545	43,371	100,328	83,333
Financial services	4,924	3,295	9,240	6,495
Total revenue	$170,994	$137,444	$302,119	$248,014
Operating income (loss):				
Midwest homebuilding (a)	$3,961	$(3,669)	$5,072	$(8,289)
Southern homebuilding (a)	2,808	(58)	3,693	(6,692)
Mid-Atlantic homebuilding (a)	3,248	1,857	3,709	3,050
Financial services	2,210	1,612	4,646	3,234
Less: Corporate selling, general and administrative expenses	(5,467)	(5,306)	(10,128)	(9,798)
Total operating income (loss)	$6,760	$(5,564)	$6,992	$(18,495)
Interest expense:				
Midwest homebuilding	$1,211	$1,440	$2,937	$3,321
Southern homebuilding	743	661	1,545	1,197
Mid-Atlantic homebuilding	1,196	1,193	2,906	2,541
Financial services	311	171	679	441
Total interest expense	$3,461	$3,465	$8,067	$7,500
Income (loss) before income taxes	$3,299	$(9,029)	$(1,075)	$(25,995)

(a) For the three months ended June 30, 2012 and 2011, 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 $0.7 million and $5.5 million, respectively. These charges reduced operating income by $0.5 million and $5.3 million in the Midwest region for the three months ended June 30, 2012 and 2011, respectively, and $0.1 million in the Southern region and less than $0.1 million in the Mid-Atlantic region for both the three months ended June 30, 2012 and 2011.

(b)
For the six months ended June 30, 2012 and 2011, 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 $0.8 million and $16.6 million, respectively. These charges reduced operating income by $0.6 million and $10.4 million in the Midwest region, $0.1 million and $6.0 million in the Southern region and $0.1 million and $0.3 million in the Mid-Atlantic region for the six months ended June 30, 2012 and 2011, respectively.

The following tables show total assets by segment:

	At June 30, 2012				
(In thousands)	Midwest	Southern	Mid-Atlantic	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	$840	$1,250	$ 1,983	$—	$4,073

Inventory (a)	202,475	113,837	201,571	—	517,883
Investments in Unconsolidated LLCs	5,232	5,672	—	—	10,904
Other assets	6,972	4,531	9,267	117,130	137,900
Total assets	$215,519	$125,290	$ 212,821	$117,130	$670,760

	At December 31, 2011				
(In thousands)	Midwest	Southern	Mid-Atlantic	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	$252	$1,516	$ 907	$—	$2,675
Inventory (a)	200,760	89,586	173,751	—	464,097
Investments in Unconsolidated LLCs	5,157	5,200	—	—	10,357
Other assets	3,865	2,858	9,861	170,772	187,356
Total assets	$210,034	$99,160	$ 184,519	$170,772	$664,485

(a) Inventory includes single-family lots, land and land development costs; land held for sale; homes under 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.

Reportable Segments

The following table presents, by reportable segment, selected financial information for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2012	2011	2012	2011
Midwest Region				
Homes delivered	255	273	488	487
New contracts, net	299	308	639	595
Backlog at end of period	538	444	538	444
Average sales price per home delivered	$247	$216	$245	$225
Average sales price of homes in backlog	$263	$248	$263	$248
Aggregate sales value of homes in backlog	$141,687	$110,215	$141,687	$110,215
Revenue homes	$62,931	$58,878	$119,359	$109,350
Revenue third party land sales	$95	$—	$620	$—
Operating income (loss) homes (a)	$3,936	$(3,669)	$5,142	$(8,289)
Operating income (loss) third party land sales (a)	$24	$—	$(70)	$—
Number of new communities	1	2	4	6
Number of active communities	53	58	53	58
Southern Region				
Homes delivered	187	154	320	233
New contracts, net	269	143	483	302
Backlog at end of period	361	197	361	197
Average sales price per home delivered	$233	$206	$226	$205
Average sales price of homes in backlog	$242	$225	$242	$225
Aggregate sales value of homes in backlog	$87,316	$44,354	$87,316	$44,354
Revenue homes	$43,499	$31,795	$72,366	$47,881
Revenue third party land sales	$—	$105	$206	$955
Operating income (loss) homes (a)	$2,808	$(153)	$3,696	$(6,197)
Operating income (loss) third party land sales (a)	$—	$95	$(4)	$(495)
Number of new communities	6	8	11	13
Number of active communities	34	24	34	24
Mid-Atlantic Region				
Homes delivered	183	163	324	309
New contracts, net	258	184	468	392
Backlog at end of period	269	192	269	192
Average sales price per home delivered	$303	$266	$297	$270
Average sales price of homes in backlog	$340	$310	$340	$310
Aggregate sales value of homes in backlog	$91,385	$59,450	$91,385	$59,450
Revenue homes	$55,485	$43,371	$96,268	$83,333
Revenue third party land sales	$4,060	$—	$4,060	$—
Operating income homes (a)	$2,482	$1,857	$2,943	$3,050
Operating income third party land sales (a)	$766	$—	$766	$—
Number of new communities	5	4	7	7
Number of active communities	37	33	37	33
Total Homebuilding Regions				
Homes delivered	625	590	1,132	1,029
New contracts, net	826	635	1,590	1,289

Backlog at end of period	1,168	833	1,168	833
Average sales price per home delivered	$259	$227	$254	$234
Average sales price of homes in backlog	$274	$257	$274	$257
Aggregate sales value of homes in backlog	$320,388	$214,019	$320,388	$214,019
Revenue homes	$161,915	$134,044	$287,993	$240,564
Revenue third party land sales	$4,155	$105	$4,886	$955
Operating income (loss) homes (a)	$9,226	$(1,965)	$11,781	$(11,436)
Operating income (loss) third party land sales (a)	$790	$95	$692	$(495)
Number of new communities	12	14	22	26
Number of active communities	124	115	124	115

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(Dollars in thousands)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Financial Services				
Number of loans originated	522	448	983	782
Value of loans originated	$118,800	$93,089	$216,055	$164,123
Revenue	$4,924	$3,295	$9,240	$6,495
Selling, general and administrative expenses	2,714	1,683	4,594	3,261
Interest expense	311	171	679	441
Income before income taxes	$1,899	$1,441	$3,967	$2,793

(a) Amount shown includes impairment of inventory and investment in Unconsolidated LLCs and abandoned land transaction costs for the three and six months ended June 30, 2012 and 2011 as follows:

(Dollars in thousands)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Midwest:				
Homes	$506	$5,328	$508	$10,361
Land	—	—	95	—
	506	5,328	603	10,361
Southern:				
Homes	103	130	110	5,407
Land	—	—	—	590
	103	130	110	5,997
Mid-Atlantic:				
Homes	88	29	110	258
Land	—	—	—	—
	88	29	110	258
Total				
Homes	697	5,487	728	16,026
Land	—	—	95	590
	$697	$5,487	$823	$16,616

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 six months ended June 30, 2012 and 2011:

	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Midwest	16.5 %	20.8 %	15.9 %	20.7 %
Southern	16.7 %	22.7 %	16.4 %	18.2 %

Mid-Atlantic	13.4 %	14.8 %	12.4 %	13.3 %
Total cancellation rate	15.6 %	19.6 %	15.1 %	18.0 %

Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011

Midwest Region. For the three months ended June 30, 2012, homebuilding revenue in our Midwest region increased $4.1 million, from $58.9 million in the second quarter of 2011 to $63.0 million in the second quarter of 2012. This increase was primarily the result of a 14% increase in the average sales price of homes delivered, from $216,000 in the second quarter of 2011 to $247,000 in the second quarter of 2012, offset partially by a 7% decrease in homes delivered from 273 in the second quarter of 2011 to 255 in the second quarter of 2011. For the three months ended June 30, 2012, there were $0.5 million of charges related to the impairment of inventory and investment in Unconsolidated LLCs in our Midwest region, compared to $5.3 million of impairment charges for the three months ended June 30, 2011. Excluding these impairment charges, our adjusted operating gross margin percentage was 17.6% for the three months ended June 30, 2012 and 13.8% for the three months ended June 30, 2011. The increase in adjusted operating gross margin percentage was primarily the result of an increase in homes delivered in new communities, where we typically experience higher gross margins compared to our legacy communities primarily due to improved product and cost structures. For the three months ended June 30, 2012, 55% of the homes delivered in our Midwest region were in new communities, compared to 37% of our homes delivered during the three months ended June 30, 2011. Our Midwest region had operating income of $4.0 million for the three months ended June 30, 2012, a $7.7 million increase from the operating loss of $3.7 million in the second quarter of 2011. The $7.7 million increase in operating income was primarily the result of the 380 basis point improvement in our adjusted operating gross margin percentage and the $4.8 million decrease in impairment charges discussed above.

We had a 3% decrease in new contracts in our Midwest region for the three months ended June 30, 2012, from 308 for the quarter ended June 30, 2011 to 299 for the quarter ended June 30, 2012. Increases in new contracts in our Chicago and Indianapolis markets were offset by lower new contracts in our Ohio markets. Our monthly absorption rate in our Midwest region in the second quarter of 2012 increased slightly to 1.8 per community, compared to 1.7 per community in the second quarter of 2011.

Southern Region. For the three months ended June 30, 2012, homebuilding revenue in our Southern region increased $11.6 million, from $31.9 million in the second quarter of 2011 to $43.5 million in the second quarter of 2012. This increase was primarily the result of a 21% increase in the number of homes delivered, from 154 for the quarter ended June 30, 2011 to 187 for the quarter ended June 30, 2012, along with a 13% increase in the average sales price of homes delivered from $206,000 in the second quarter of 2011 to $233,000 in the second quarter of 2012. There were no charges related to the impairment of inventory and investment in Unconsolidated LLCs in our Southern region for the three months ended June 30, 2012, compared to $0.1 million in charges we incurred during the second quarter of 2011. Our gross margin percentage and adjusted operating gross margin percentage for the three months ended June 30, 2012 was 18.8% compared to an adjusted operating gross margin percentage of 14.5% for the three months ended June 30, 2011. Overall, we are experiencing higher gross margins in our new communities than in our legacy communities primarily due to improved product and cost structures. For the quarter ended June 30, 2012, 78% of the homes delivered in our Southern region were in new communities, compared to 58% of our homes delivered in our Southern region during the second quarter of 2011. Our Southern region had operating income of $2.8 million for the three months ended June 30, 2012, a $2.9 million increase from our operating loss of $0.1 million in the second quarter of 2011. The $2.9 million increase in operating income was primarily the result of the 430 basis point improvement in our adjusted operating gross margin percentage discussed above. Selling, general and administrative expenses increased $0.8 million in the second quarter of 2012 primarily due to land related expenses and an increase in variable selling expenses, which was the result of the increase in homes delivered as well as increased sales commissions due to the higher average sales price of homes delivered during the second quarter of 2012 compared to the second quarter of 2011.

During the three months ended June 30, 2012, we opened six new communities (five of which were acquired in our April 2012 acquisition) in our Southern region, compared to eight new communities opened during the second quarter of 2011. We experienced an 88% increase in new contracts in our Southern region, from 143 in the second quarter of 2011 to 269 in the second quarter of 2012. Our second quarter 2012 monthly absorption rate in our Southern region increased from 2.2 per community in the second quarter of 2011 to 2.8 per community in 2012.

Mid-Atlantic Region. Homebuilding revenue in our Mid-Atlantic region increased from $43.4 million for the three months ended June 30, 2011 to $59.5 million for the three months ended June 30, 2012. This 37% increase was primarily the result of a 14% increase in the average sales price of homes delivered, from $266,000 for the three months ended June 30, 2011 to $303,000 for the three months ended June 30, 2012; a 12% increase in the number of homes delivered, from 163 in the second quarter of 2011 to 183 in the second quarter of 2012; and revenue of $4.1 million from a land sale that occurred during 2012's second quarter. The increase in average sales price was primarily due to changes in our product mix of homes delivered from the first quarter of 2011 in certain of our Mid-Atlantic markets. There were no charges related to the impairment of inventory and investment in Unconsolidated LLCs in our Mid-Atlantic region for the three months ended June 30, 2012, compared to less than $0.1 million in charges we incurred during the second quarter of 2011. Excluding profit relating to the sale of land to third parties, our adjusted operating gross margin percentage (gross margin excluding charges related to impairment of inventory and investment in Unconsolidated LLCs) declined from 16.9% for the three months ended June 30, 2011 to 16.1% for the three months ended June 30, 2012. The decrease in adjusted operating gross margin percentage was primarily the result of changes in our product mix of homes delivered in certain of our Mid-Atlantic markets. Our Mid-Atlantic region had operating income of $3.2 million for the three months ended June 30, 2012, a $1.3 million increase from second quarter 2011's operating income of $1.9 million. This increase was primarily due to the increase in revenue noted above and $0.8 million of profit relating to the sale of land to third parties, offset in part, by the decline in our adjusted operating gross margin percentage and a $1.0 million increase in selling, general and administrative expenses.

We experienced a 40% increase in new contracts, from 184 in the second quarter of 2011 to 258 in the second quarter of 2012. During the three months ended June 30, 2012, we opened five new communities in our Mid-Atlantic region, compared to four new communities opened during the second quarter of 2011. Our monthly absorption rate in our Mid-Atlantic region was 2.4 per community in the second quarter of 2012, compared to 2.0 per community in the second quarter of 2011.

Financial Services. For the three months ended June 30, 2012, revenue from our mortgage and title operations increased $1.6 million (49%), from $3.3 million in the second quarter of 2011 to $4.9 million in the second quarter of 2012, primarily due an increase in the number of loan originations, from 448 in the second quarter of 2011 to 522 in the second quarter of 2012. Selling, general and administrative expenses increased $1.0 million for the quarter ended June 30, 2012 compared to the quarter ended June 30, 2011, primarily due to a $0.3 million increase in payroll related expenses and a $0.7 million increase in additional reserves for investor put-back inquiries. We had a $0.6 million increase in operating income for the second quarter of 2012 compared to the second quarter of 2011, which was primarily due to the increase in revenue discussed above, offset in part by the increased selling, general and administrative expenses.

At June 30, 2012, M/I Financial provided financing services in all of our markets. Approximately 84% of our homes delivered during the second quarter of 2012 that were financed were financed through M/I Financial, compared to 85% in the second quarter of 2011. 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 increased $0.2 million, from $5.3 million in the second quarter of 2011 to $5.5 million in the second quarter of 2012. The increase was primarily due to a $0.8 million increase in payroll related expenses and $0.2 million in professional fees, which were partially offset by a $0.8 million net gain on purchase accounting related adjustments related to our April 2012 acquisition.

Interest Expense - Net. The Company incurred $3.5 million of interest expense for both the quarters ended June 30, 2012 and June 30, 2011. The majority of the expense was due to the increase in our weighted average borrowings from $257.8 million in the second quarter of 2011 to $261.9 million in the second quarter of 2012, due primarily to the increase in borrowings under the MIF Mortgage Warehousing Agreement as a result of an increase in the number of loan originations during the second quarter of 2012.

Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011

Midwest Region. For the six months ended June 30, 2012, homebuilding revenue in our Midwest region increased $10.6 million, from $109.4 million in the first half of 2011 to $120.0 million in the first half of 2012. This 10% increase was primarily the result of a 9% increase in the average sales price of homes delivered (as the number of homes delivered was essentially flat from year to year), from $225,000 in the first half of 2011 to $245,000 in the first half of 2012, along with a $0.6 million increase in revenue from third party land sales. For the six months ended June 30, 2012, there were $0.6 million of charges related to the impairment of inventory and investment in Unconsolidated LLCs in our Midwest region, compared to $10.3 million of impairment charges for the six months ended June 30, 2011. Excluding these impairment charges, our adjusted operating gross margin percentage was 16.0% for the six months ended June 30, 2012 and 13.0% for the six months ended June 30, 2011. The increase in adjusted operating gross margin percentage was primarily the result of a 13% increase in homes delivered in new communities where we typically experience higher gross margins compared to our legacy communities primarily due to improved product and cost structures. Our Midwest region had operating income of $5.1 million for the six months ended June 30, 2012, a $13.4 million increase from an operating loss of $8.3 million for the six months ended June 30, 2011. The increase in operating income was primarily the result of improvement in both our average sales price and adjusted operating gross margin percentage (300 basis points) as well as the $9.7 million decrease in impairment charges discussed above. Partially offsetting the aforementioned improvements, was a $1.4 million increase in our selling, general and administrative expenses, from $12.2 million for the six months ended June 30, 2011 to $13.6 million for the six months ended June 30, 2012. This increase was primarily the result of increased real estate taxes, professional fees, and an increase in variable selling expenses, which were the result of the increase in sales commissions due to the higher average sales price of homes delivered during the first half of 2012 compared to the first half of 2011.

We opened four new communities in our Midwest region during the first half of 2012, compared to six communities opened during the first half of 2011. We had a 7% increase in new contracts in our Midwest region for the six months ended June 30, 2012, from 595 for the six months ended June 30, 2011 to 639 for the six months ended June 30, 2012. Our first half 2012 monthly absorption rate in our Midwest region increased to 1.9 per community, compared to 1.6 per community in the first half of 2011.

Southern Region. For the six months ended June 30, 2012, homebuilding revenue in our Southern region increased $23.7 million, from $48.8 million in the first half of 2011 to $72.6 million in the first half of 2012. This 49% increase was primarily the result of a 37% increase in the number of homes delivered, from 233 for the six months ended June 30, 2011 to 320 for the six months ended June 30, 2012, along with a 10% increase in the average sales price of homes delivered from $205,000 in the first half of 2011 to $226,000 in the first half of 2012. We experienced an increase in homes delivered across all of our southern region markets. There were no charges related to the impairment of inventory and investment in Unconsolidated LLCs in our Southern region for the six months ended June 30, 2012, compared to the $6.0 million in charges we incurred during the first six months of 2011. Our gross margin percentage and adjusted operating gross margin percentage for the six months ended June 30, 2012 was 18.5%, compared to an adjusted operating gross margin percentage of 14.2% for the six months ended June 30, 2011. Overall, we are experiencing higher gross margins in our new communities than in our legacy communities primarily due to improved product and cost structures. For the six months ended June 30, 2012, 75% of the homes delivered in our Southern region were in new communities, compared to 50% of our homes delivered in our Southern region during the six months ended June 30, 2011. Our Southern region had operating income of $3.7 million for the six months ended June 30, 2012, a $10.4 million increase from 2011's first half operating loss of $6.7 million. The $10.4 million increase in operating income was primarily the result of the 430 basis point improvement in our adjusted operating gross margin percentage discussed above. Selling, general and administrative expenses increased $2.1 million in the first half of 2012. The increase was primarily due to an increase in expenses related to our model homes, sales offices, and land related expenses. We also had an increase in variable selling expenses, which was the result of the increased sales commissions due to the higher average sales price of homes delivered as well as the increase in the number of homes delivered.

During the first half of 2012, we opened 11 new communities in our Southern region (five of which were acquired in our April 2012 acquisition), compared to 13 new communities opened during the first half of 2011. We experienced a 60% increase in new contracts in our Southern region during the first half of 2012, from 302 in the first half of 2011 to 483 in the first half of 2012. Our monthly absorption rate for the first half of 2012 in our Southern region was 2.6 per community, compared to 2.5 per community in the first half of 2011.

Mid-Atlantic Region. Homebuilding revenue in our Mid-Atlantic region increased $17.0 million from $83.3 million for the six months ended June 30, 2011 to $100.3 million for the six months ended June 30, 2012. This 20% increase was primarily the result of a 10% increase in the average sales price of homes delivered, from $270,000 for the six months ended June 30, 2011 to $297,000 for the six months ended June 30, 2012; a 5% increase in the number of homes delivered, from 309 in the first half of 2011 to 324 in the first half of 2012; and revenue of $4.1 million from a land sale that occurred during 2012's second quarter. The increase in the average sales price of homes delivered was primarily due to changes in our product mix of homes delivered from the first half of 2011 in certain of our Mid-Atlantic markets. There were no charges related to the impairment of inventory and investment in Unconsolidated LLCs in our Mid-Atlantic region for the six months ended June 30, 2012, compared to less than $0.1 million in charges we incurred during the first six months of 2011. Excluding profit relating to the sale of land to third parties, our adjusted operating gross margin percentage (excluding charges related to impairment of inventory and investment in Unconsolidated LLCs) declined from 16.5% for the six months ended June 30, 2011 to 15.6% for the six months ended June 30, 2012. The decrease in adjusted operating gross margin percentage was primarily the result of changes in our product mix of homes delivered in certain of our Mid-Atlantic markets. Our Mid-Atlantic region had operating income of $3.7 million for the six months ended June 30, 2012, a $0.6 million increase from the operating income of $3.1 million in 2011's first half. This increase was primarily due to the increase in revenue noted above and $0.8 million of profit relating to the sale of land to third parties, offset in part, by the decline in our adjusted operating gross margin percentage and a $1.4 million increase in selling, general and administrative expenses. Selling, general and administrative expenses increased primarily due to increase in variable selling expenses, architectural expenses, and expenses related to our model homes, sales offices, and design centers, which were partially offset by a decrease in land related expenses.

During the first half of 2012, we opened seven new communities in our Mid-Atlantic region, the same number of new communities opened during the first half of 2011. For the six months ended June 30, 2012, 87% of the homes delivered in our Mid-Atlantic region were in new communities, compared to 66% of the homes delivered in our Mid-Atlantic region during the six months ended June 30, 2011. During the first half of 2012, we experienced a 19% increase in new contracts, from 392 in the first half of 2011 to 468 in the first half of 2012. Our monthly absorption rate in our Mid-Atlantic region was 2.2 per community in the first half of 2012, compared to 2.1 per community in the first half of 2011.

Financial Services. For the six months ended June 30, 2012, revenue from our mortgage and title operations increased \$2.7 million (42%), from \$6.5 million in the first half of 2011 to \$9.2 million in the first half of 2012, primarily due an increase in the number of loan originations, from 782 in the first half of 2011 to 983 in the first half of 2012. Selling, general and administrative expenses increased \$1.3 million for the six months ended June 30, 2012 compared to the six months ended June 30, 2011, primarily due to a \$0.5 million increase in payroll related expenses as well as due to a \$0.7 million increase in additional reserves for investor put-back inquiries. We had a \$1.4 million increase in operating income for the first half of 2012 compared to the first half of 2011, which was primarily due to the increase in revenue discussed above.

At June 30, 2012, M/I Financial provided financing services in all of our markets. Approximately 82% of our homes delivered during the first half of 2012 that were financed were financed through M/I Financial, compared to 85% in the first half of 2011. 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 increased $0.3 million, from $9.8 million in the first half of 2011 to $10.1 million in the first half of 2012. The increase was primarily due to a $0.9 million increase in payroll related expenses which was partially offset by a $0.8 million net gain on purchase accounting related to our April 2012 acquisition.

Interest Expense - Net. Interest expense for the Company increased $0.6 million, from $7.5 million for the six months ended June 30, 2011 to $8.1 million for the six months ended June 30, 2012. This increase was primarily due to the increase in our weighted average borrowings from $258.4 million in the first half of 2011 to $271.1 million in the first half of 2012, due primarily to the increase in borrowings under the MIF Mortgage Warehousing Agreement as a result of an increase in the number of loan originations during the first half of 2012.

LIQUIDITY AND CAPITAL RESOURCES

Overview of Capital Resources and Liquidity

During 2011 and the first six months of 2012, we continued to carefully manage our use of cash to operate our business. During the second quarter of 2012, we repaid the remaining $41.4 million aggregate principal balance of our 2012 Senior Notes at maturity on April 2, 2012 and also issued an additional $30 million of our 8.625% Senior Notes due 2018. In addition, we 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, including the acquisition of the assets of a privately-held homebuilder based in Houston, Texas in April 2012. At June 30, 2012, we had $56.9 million of cash, cash equivalents and restricted cash, with $44.3 million of this amount comprised of unrestricted cash and cash equivalents.

At June 30, 2012 and December 31, 2011, our ratio of net debt to net capital was 45% and 42%, respectively. Our ratio of net debt to net capital is calculated as total debt minus total cash, cash equivalents and restricted cash, divided by the sum of total debt minus total cash, cash equivalents and restricted cash 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.

Our net income (loss) historically does not approximate cash flow from operating activities. The difference between net income (loss) and cash flow from operating activities is primarily caused by changes in inventory levels together with changes in receivables, prepaid and other assets, interest and other accrued liabilities, deferred income taxes, accounts payable, mortgage loans and liabilities, and non-cash charges relating to depreciation, stock compensation awards and impairment losses for inventory, among other things. When we are expanding our operations, inventory levels, prepaids, and other assets increase, causing cash flow from operating activities to decrease. Certain liabilities also increase as operations expand and partially offset the negative effect on cash flow from operations caused by the increase in inventory levels, prepaids and other assets. Similarly, as our mortgage operations expand, net income from these operations increases, but for cash flow purposes net income is offset by the net change in mortgage assets and liabilities. The opposite is true during periods when our investment in new land purchases and development of new communities decrease.

As a result of new land purchases and land development expenditures over the past few years, we have used cash in operations as we added new communities and purchased land for future use. We continue to operate in an uncertain, albeit improving, economic environment, and our ability to generate positive cash flow from operations and to maintain sufficient liquidity for our business operations may be affected by economic or business conditions beyond our control.

We believe that our remaining balance of unrestricted cash and available borrowing options, including availability under the Company's $140 million secured revolving credit facility (the "Credit Facility"), along with proceeds from home deliveries and other sources of liquidity, will be sufficient to fund currently anticipated working capital, investment in land and land development, construction of homes, planned capital spending, and debt service requirements for at least the next twelve months. However, we routinely monitor current operational requirements, financial market conditions, and credit relationships and we may choose to issue new debt and/or equity securities as management deems necessary.

Operating Cash Flow Activities

In the first half of 2012, we used $23.5 million of cash in our operating activities, compared to cash used in operating activities of $8.5 million in the first six months of 2011. As is typical in the homebuilding industry, our primary uses of cash in operating our business during the six months ended June 30, 2012 were for land purchases, land development expenditures, the costs of home construction, interest expense, selling expenses, and general and administrative expenses. The primary source of cash was revenues from home deliveries, along with revenues from our financial services operations. During the six months ended June 30, 2012, we spent \$57.2 million on land and \$19.6 million on land development, which was the primary use of cash during the first six months of 2012, compared to \$56.7 million of like spending during the six months ended June 30, 2011. With respect to changes in assets and liabilities, the primary use of cash from operations in the first half of 2012 was an increase in total inventory of \$47.6 million, which is related in part to the amount spent on land and land development during the quarter. This compares with a \$23.1 million increase in total inventory in the first half of 2011. We also had a \$1.4 million decrease in accrued compensation. Partially offsetting these increases in our use of cash compared to 2011 was a \$6.1 million increase in our customer deposits in the first half of 2012.

The increase in cash used in operating activities during the six months ended June 30, 2012 compared to the six months ended June 30, 2011, despite the \$9.1 million improvement in our pre-tax loss before asset impairments, was primarily due to a \$24.5 million increase in the net change in total inventory and decreases in the changes in accounts payable and other assets of \$4.5 million and \$3.4 million, respectively. Partially offsetting this was a \$3.7 million increase in the net change in our cash held in escrow as well as a \$4.2 million increase in the net change in our customer deposits.

In the normal course of our business, in addition to our land purchases, 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 \$7.7 million as of June 30, 2012 as consideration for the right to purchase land and lots in the future, including the right to purchase \$165.3 million of land and lots during the years 2012 through 2019.

Based upon our business activity levels, liquidity, leverage, market conditions, and opportunities for land in our markets, we currently estimate that in 2012, we will spend approximately \$160 to \$210 million on land purchases and land development for the full year. 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 our ongoing pace of home deliveries, and we plan to adjust our land spending accordingly.

Investing Cash Flow Activities

For the six months ended June 30, 2012, we generated \$23.2 million of cash from investing activities, compared to the Company using \$29.0 million of cash for investing activities in the six months ended June 30, 2011. This increase in cash was primarily due to the \$28.8 million reduction in restricted cash in the first six months of 2012 compared to the \$23.2 million increase in restricted cash in the first six months of 2011. The \$28.8 million reduction in restricted cash was the result of the January 31, 2012 amendment to our Credit Facility (the "2012 Amendment"), which is more fully described below in "Notes Payable - Homebuilding." Among other things, the 2012 Amendment allows us to maintain either (or a combination of) \$25 million of cash pledged to the lenders or \$25 million of excess availability under the Secured Borrowing Base (as defined in the Credit Agreement dated June 9, 2010, as amended, that governs the Credit Facility (the "Credit Agreement")) if the Company fails to maintain a minimum Interest Coverage Ratio (as defined in the Credit Agreement) or a minimum Adjusted Cash Flow Ratio (as defined in the Credit Agreement). As a result of the 2012 Amendment, the \$25 million of cash previously pledged to the lenders under the Credit Facility and included as restricted cash at December 31, 2011 was released. At June 30, 2012, restricted cash consisted of homebuilding cash the Company had pledged as collateral at June 30, 2012 in accordance with the five secured Letter of Credit Facilities.

Financing Cash Flow Activities

For the six months ended June 30, 2012, we used \$15.2 million of cash in our financing activities, compared to generating \$1.3 million during the six months ended June 30, 2011. The increase in cash used was primarily the result of repaying the $41.4 million aggregate outstanding principal balance of our 2012 Senior Notes during the second quarter of 2012 and $6.3 million of bank borrowings, partially offset by the net proceeds from our issuance of an additional $30 million of our 2018 Senior Notes in May 2012.

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.

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 existing cash balances, cash from operations and borrowing resources will provide for our liquidity requirements. However, we continue to evaluate the impact of market conditions on our liquidity and we may modify our cash management and financing sources if market conditions change. 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, 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 June 30, 2012:

(In thousands)	Expiration Date	Outstanding Balance	Available Amount
Notes payable – homebuilding (a)	12/31/2014	$—	$51,956
Notes payable – financial services (b)	3/30/2013	$46,343	$271
2018 Senior Notes	11/15/2018	$227,470	$—

(a) The available amount is computed in accordance with the borrowing base calculation under the Credit Facility and can be increased if we secure additional assets or invest additional amounts in the currently pledged assets. The 2012 Amendment provides that the Company may increase the amount of the Credit Facility from $140 million to up to $175 million in the aggregate, contingent on obtaining additional commitments from lenders. The Credit Facility has an expiration date of December 31, 2014.

(b) The available amount is computed in accordance with the borrowing base calculation under M/I Financial's $70 million mortgage warehousing agreement dated April 18, 2011, as amended on March 23, 2012 (the "MIF Mortgage Warehousing Agreement"), and may be increased by pledging additional mortgage collateral. The maximum aggregate commitment amount of the MIF Mortgage Warehousing Agreement is $70 million. The MIF Mortgage Warehousing Agreement has an expiration date of March 30, 2013.

Notes Payable - Homebuilding.

Homebuilding Credit Facility. 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 $40 million sub-facility for letters of credit. The Credit Facility is governed by the Credit Agreement which was most recently amended on January 31, 2012.

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 June 30, 2012, the Company had no outstanding borrowings, and $16.7 million of issued and outstanding letters of credit under the Credit Facility, and the Company had pledged $202.6 million in aggregate book value of inventory 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 personal property of the Company and the subsidiary guarantors, including the equity interests in the subsidiary guarantors, and by certain real property in Ohio, Indiana, Illinois 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, plus up to $25 million of availability based on 35% of the aggregate book value of mortgaged real property for which appraisals and other requirements have not been completed, for a period of up to 120 days. 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 June 30, 2012, there was $68.7 million of availability under the Credit Facility in accordance with the borrowing base calculation, and $16.7 million of letters of credit outstanding under the Credit Facility, leaving $52.0 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, title insurance or similar financial businesses relating to the homebuilding and home sales business, certain subsidiaries that are not wholly-owned by the Company or another subsidiary, and other subsidiaries designated by the Company as Non-Guarantor Subsidiaries, subject to limitations on the aggregate amount invested in such Non-Guarantor Subsidiaries.

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 June 30, 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 June 30, 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) a combination of unrestricted cash pledged as security to the lenders or unused availability under the Secured Borrowing Base of not less than $25 million in total. Each of the Company's ratios were less than the required minimum Interest Coverage Ratio and the minimum Adjusted Cash Flow Ratio for the quarters ended June 30, 2011, September 30, 2011, December 31, 2011, March 31, 2012 and June 30, 2012, and therefore, we were required to maintain either unrestricted cash pledged as security to the lenders or unused availability under the Secured Borrowing Base (or a combination thereof) of not less than $25 million 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 six 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 June 30, 2012, the Company was in compliance with all financial 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 June 30, 2012:

Financial Covenant		Covenant Requirement	Actual
		(Dollars in millions)	
Consolidated Tangible Net Worth	≥	$193.3	$267.6

Leverage Ratio	≤	1.5 to 1.0	1.1 to 1.0
Interest Coverage Ratio (a)	≥	1.5 to 1.0	1.5 to 1.0
Adjusted Cash Flow Ratio (a)	≥	1.5 to 1.0	(1.5) to 1.0
Secured Indebtedness (Excluding Secured Letters of Credit)	<	$25.0	$6.4
Adjusted Land Value	≤	$294.4	$142.1
Investments in Non-Guarantor Subsidiaries, Financial Subsidiaries and Joint Ventures	≤	$80.3	$11.3
Unsold Housing Units and Model Homes	≤	833	549

(a) The Company is required to meet one of these two interest coverage requirements or maintain either (or a combination of) $25 million of cash pledged to the lenders or $25 million of excess availability under the Secured Borrowing Base (as defined in the Credit Agreement).

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 August 31, 2012 to June 1, 2013, 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 $5.0 million to $10.0 million, for a combined letter of credit capacity of $30.5 million, of which $5.2 million was uncommitted at June 30, 2012 and could be withdrawn at any time. As of June 30, 2012, there was a total of $12.2 million of letters of credit issued under the Letter of Credit Facilities, which was collateralized with $12.5 million of restricted cash.

Notes Payable - Financial Services.

MIF Mortgage Warehousing Agreement. M/I Financial entered into the Second Amendment (the "Second Amendment") to the MIF Mortgage Warehousing Agreement on March 23, 2012. The Second Amendment, among other things, increased the maximum borrowing availability from $60.0 million to $70.0 million and extended the expiration date to March 30, 2013. The MIF Mortgage Warehousing Agreement is used to finance eligible residential mortgage loans originated by M/I Financial. 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) 3.50%.

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.

As of June 30, 2012, there was $46.3 million outstanding under the MIF Mortgage Warehousing Agreement and the Company was in compliance with all financial covenants. The following table summarizes the restrictive covenant thresholds under the MIF Mortgage Warehousing Agreement and M/I Financial's compliance with such covenants as of June 30, 2012:

Financial Covenant		Covenant Requirement	Actual
		(Dollars in millions)	
Leverage Ratio	≤	10.0 to 1.00	4.15 to 1.00
Liquidity	≥	$5.0	$15.0
Adjusted Net Income	>	$0.0	$3.0
Tangible Net Worth	≥	$10.0	$12.9

Senior Notes. In November 2011 the Company issued $200 million aggregate principal amount of 2018 Senior Notes. In May 2012, we issued an additional $30 million under our 2018 Notes indenture for a total outstanding balance of $230 million.

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, and certain subsidiaries that are otherwise designated by the Company as Unrestricted Subsidiaries in accordance with the terms of the indenture. 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 indenture governing the 2018 Senior Notes. The covenants, as more fully described and defined in the indenture, 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 indenture, 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 $40 million 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 indenture. As of June 30, 2012, the restricted payments basket under the indenture governing the 2018 Senior Notes was $(11.6) million. As a result of the deficit in the restricted payments basket under 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 indenture governing the 2018 Senior Notes. As of June 30, 2012, the Company was in compliance with all terms, conditions, and financial covenants under the indentures.

Weighted Average Borrowings. For the three months ended June 30, 2012 and 2011, our weighted average borrowings outstanding were $261.9 million and $257.8 million, respectively, with a weighted average interest rate of

9.20% and 9.55%, respectively. For the six months ended June 30, 2012 and 2011, our weighted average borrowings outstanding were $271.1 million and $258.4 million, respectively, with a weighted average interest rate of 9.11% and 9.60%, respectively. The increase in borrowings was primarily the result of the increase in borrowings under the MIF Mortgage Warehousing Agreement as a result of an increase in the number of loan originations during the second quarter of 2012.

At June 30, 2012 we had no outstanding borrowings under the Credit Facility. During the six months ended June 30, 2012, the average daily amount outstanding under the Credit Facility was $2.8 million and the maximum amount outstanding under the Credit Facility was $15.0 million. We expect that we may incur additional borrowings under the Credit Facility during the third quarter in 2012, but we do not expect the peak amount borrowed to exceed $50 million. The actual amount borrowed will vary depending on various factors, including the timing and amount of land and house construction expenditures, payroll and other general and administrative costs, and cash receipts from home closings, as well as other cash receipts and payments. The company experiences significant variation in cash and Credit Facility balances from week to week due to the timing of such receipts and payments. The amount borrowed would also be impacted by any capital markets transactions or additional financing executed by the Company during the quarter, if any.

There were $16.7 million of letters of credit issued and outstanding under the Credit Facility at June 30, 2012. During the six months ended June 30, 2012, the average daily amount of letters of credit outstanding under the Credit Facility was $17.8 million and the maximum amount of letters of credit outstanding under the Credit Facility was $19.8 million.

At June 30, 2012, M/I Financial had $46.3 million outstanding under the MIF Mortgage Warehousing Agreement. During the six months ended June 30, 2012, the average daily amount outstanding under the MIF Mortgage Warehousing Agreement was $31.7 million and the maximum amount outstanding under the MIF Mortgage Warehousing Agreement was $56.2 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 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 six months of 2012. As a result of a current deficit in our restricted payments basket under 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 2018 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 this restrictive covenant.

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, 2011.

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 June 30, 2012 to be the amount invested of $10.9 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 June 30, 2012 related to these agreements is equal to the amount of the Company’s outstanding deposits, which totaled $7.7 million, including prepaid acquisition costs of $1.4 million, and letters of credit of $2.9 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 June 30, 2012, the Company had outstanding $61.0 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) $19.1 million of performance bonds and $22.3 million of performance letters of credit that serve as completion bonds for land development work in progress; (2) $9.8 million of financial letters of credit; and (3) $9.8 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 $210 million, subject to availability constraints. Additionally, M/I Financial is exposed to interest rate risk associated with its mortgage loan origination services.

Interest Rate Lock 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 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. Uncommitted IRLCs are considered derivative instruments and are fair value adjusted, with the resulting gain or loss recorded in current earnings.

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.

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 FMBSs are classified and accounted for as non-designated derivative instruments, with gains and losses recorded in current earnings.

The table below shows the notional amounts of our financial instruments at June 30, 2012 and December 31, 2011:

	June 30,	December 31,
Description of financial instrument (in thousands)	2012	2011
Best-effort contracts and related committed IRLCs	$2,989	$1,088
Uncommitted IRLCs	35,322	25,912
FMBSs related to uncommitted IRLCs	36,000	26,000
Best-effort contracts and related mortgage loans held for sale	3,944	14,058
FMBSs related to mortgage loans held for sale	44,000	42,000
Mortgage loans held for sale covered by FMBSs	44,258	42,227

The table below shows the measurement of assets and liabilities at June 30, 2012 and December 31, 2011:

	June 30,	December 31,
Description of Financial Instrument (in thousands)	2012	2011
Mortgage loans held for sale	$49,779	$57,275
Forward sales of mortgage-backed securities	(557)	(470)
Interest rate lock commitments	345	356
Best-efforts contracts	(124)	(129)
Total	$49,443	$57,032

The following table sets forth the amount of (loss) gain recognized on assets and liabilities for the three months ended June 30, 2012 and 2011:

	Three Months Ended June 30,	
Description (in thousands)	2012	2011
Mortgage loans held for sale	$700	$119
Forward sales of mortgage-backed securities	(852)	(34)
Interest rate lock commitments	34	182
Best-efforts contracts	(64)	(80)
Total (loss) gain recognized	$(182)	$187

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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 June 30, 2012:

	Weighted Average Interest		Expected Cash Flows by Period							Fair Value
(Dollars in thousands)	Rate		2012	2013	2014	2015	2016	Thereafter	Total	6/30/2012
ASSETS:										
Mortgage loans held for sale:										
Fixed rate	3.80	%	$51,291	$—	$—	$—	$—	$—	$51,291	$49,588
Variable rate	2.88	%	189	—	—	—	—	—	189	191
LIABILITIES:										
Long-term debt — fixed rate	8.61	%	$184	$391	$424	$459	$498	$203,390	$205,346	$242,518
Long-term debt — variable rate	3.50	%	—	46,343	—	—	—	—	46,343	46,343

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 June 30, 2012 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. The Initial Action 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 nine 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 seven of the nine other homeowners named as plaintiffs in omnibus class action complaints have dismissed their claims against the Company. One of the two remaining plaintiffs has also filed a complaint in Florida state court asserting essentially the same claims and seeking substantially the same relief as asserted in the MDL Omnibus Action. The Company intends to vigorously defend against the claims of the remaining plaintiffs. Given the inherent uncertainties in this litigation, 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, 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 June 30, 2012. 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 2018 Senior Notes, we are currently restricted from repurchasing any of our common or preferred shares.

Item 3. Defaults Upon Senior Securities - None.

Item 4. Mine Safety Disclosures - None.

Item 5. Other Information - None.

Item 6. Exhibits

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

Exhibit Number	Description
4.1	Registration Rights Agreement, dated as of May 8, 2012, by and among M/I Homes, Inc., the guarantors named therein and the initial purchasers named therein (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on May 9, 2012).
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:	August 3, 2012	By:	/s/ Robert H. Schottenstein Robert H. Schottenstein Chairman, Chief Executive Officer and President (Principal Executive Officer)
Date:	August 3, 2012	By:	/s/ Ann Marie W. Hunker Ann Marie W. Hunker Vice President, Corporate Controller (Principal Accounting Officer)

EXHIBIT INDEX

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