

M I HOMES INC
Form 10-Q
April 27, 2012

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2012

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

Commission File Number 1-12434

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

Ohio
(State or other jurisdiction of incorporation or
organization)

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

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

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

Yes No

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

Yes No

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

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

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

Yes No X

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

Common shares, par value \$.01 per share: 18,815,648 shares outstanding as of April 24, 2012.

M/I HOMES, INC.
FORM 10-Q

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

	March 31, 2012 (Unaudited)	December 31, 2011
(Dollars in thousands, except par values)		
ASSETS:		
Cash and cash equivalents	\$66,978	\$59,793
Restricted cash	13,733	41,334
Mortgage loans held for sale	45,345	57,275
Inventory	490,058	466,772
Property and equipment - net	13,531	14,358
Investment in Unconsolidated LLCs	10,716	10,357
Other assets	17,372	14,596
TOTAL ASSETS	\$657,733	\$664,485
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable	\$41,068	\$41,256
Customer deposits	8,334	4,181
Other liabilities	42,540	39,348
Community development district obligations	5,610	5,983
Obligation for consolidated inventory not owned	2,587	2,944
Note payable bank - financial services operations	41,580	52,606
Note payable - other	5,881	5,801
Senior notes	239,118	239,016
TOTAL LIABILITIES	386,718	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 March 31, 2012 and December 31, 2011	221	221
Additional paid-in capital	139,475	139,943
Retained earnings	100,515	103,701
Treasury shares - at cost - 3,298,982 and 3,365,366 shares, respectively, at March 31, 2012 and December 31, 2011	(65,521)	(66,840)
TOTAL SHAREHOLDERS' EQUITY	271,015	273,350
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$657,733	\$664,485

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2012	2011
(In thousands, except per share amounts)	(Unaudited)	(Unaudited)
Revenue	\$131,125	\$110,570
Costs and expenses:		
Land and housing	107,330	92,574
Impairment of inventory and investment in Unconsolidated LLCs	95	10,871
General and administrative	12,457	11,402
Selling	11,011	8,654
Interest	4,606	4,035
Total costs and expenses	135,499	127,536
Loss before income taxes	(4,374)	(16,966)
(Benefit) provision for income taxes	(1,188)	73
Net loss	\$(3,186)	\$(17,039)
Loss per common share:		
Basic	\$(0.17)	\$(0.92)
Diluted	\$(0.17)	\$(0.92)
Weighted average shares outstanding:		
Basic	18,772	18,615
Diluted	18,772	18,615

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

(Dollars in thousands)	Three Months Ended March 31, 2012 (Unaudited)							
	Preferred Shares		Common Shares		Additional Paid-in Capital	Retained Earnings	Treasury Shares	Total Shareholders' Equity
	Shares Outstanding	Amount	Shares Outstanding	Amount				
Balance at December 31, 2011	4,000	\$96,325	18,736,357	\$ 221	\$139,943	\$103,701	\$(66,840)	\$ 273,350
Net loss	—	—	—	—	—	(3,186)	—	(3,186)
Stock options exercised	—	—	46,762	—	(562)	—	929	367
Stock-based compensation expense	—	—	—	—	434	—	—	434
Deferral of executive and director compensation	—	—	—	—	50	—	—	50
Executive and director deferred compensation distributions	—	—	19,622	—	(390)	—	390	—
Balance at March 31, 2012	4,000	\$96,325	18,802,741	\$ 221	\$139,475	\$100,515	\$(65,521)	\$ 271,015

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended March		
	31,		
	2012	2011	
	(Unaudited)	(Unaudited)	
(Dollars in thousands)			
OPERATING ACTIVITIES:			
Net loss	\$ (3,186	) \$ (17,039)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Inventory valuation adjustments and abandoned land transaction write-offs	126	11,129	
Mortgage loan originations	(97,255	) (71,034)
Proceeds from the sale of mortgage loans	108,587	83,195	
Fair value adjustment of mortgage loans held for sale	598	(2,031)
Net loss from property disposals	2	35	
Depreciation	1,355	1,252	
Amortization of intangibles, debt discount and debt issue costs	587	649	
Stock-based compensation expense	434	483	
Deferred income tax benefit	(1,140	) (6,558)
Deferred tax asset valuation allowance	1,140	6,558	
Excess tax benefit from stock-based payment arrangements	—	(369)
Equity in undistributed loss of Unconsolidated LLCs	—	10	
Change in assets and liabilities:			
Cash held in escrow	(139	) (6,314)
Inventory	(24,625	) (4,226)
Other assets	(1,366	) 1,495
Accounts payable	(188	) 3,212
Customer deposits	4,153	1,059	
Accrued compensation	(1,500	) (2,273)
Other liabilities	4,742	3,394	
Net cash (used in) provided by operating activities	(7,675	) 2,627
INVESTING ACTIVITIES:			
Change in restricted cash	27,740	1,569	
Purchase of property and equipment	(47	) (332)
Investment in Unconsolidated LLCs	(361	) (243)
Net cash provided by investing activities	27,332	994	
FINANCING ACTIVITIES:			
Repayments of bank borrowings - net	(11,026	) (6,173)
Proceeds from (principal repayments of) note payable-other and community development district bond obligations	80	(80)
Debt issue costs	(1,893) —	
Proceeds from exercise of stock options	367	1,416	
Excess tax deficiency from stock-based payment arrangements	—	369	
Net cash used in financing activities	(12,472	) (4,468)
Net increase (decrease) in cash and cash equivalents	7,185	(847)
Cash and cash equivalents balance at beginning of period	59,793	81,208	
Cash and cash equivalents balance at end of period	\$66,978	\$80,361	

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for:

Interest — net of amount capitalized	\$(981	)	\$(1,573)
Income taxes	\$80		\$102	

NON-CASH TRANSACTIONS DURING THE PERIOD:

Community development district infrastructure	\$(373	)	\$(252)
Consolidated inventory not owned	\$(357)	\$—	

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 three months ended March 31, 2011 and the Condensed Consolidated Balance Sheets as of March 31, 2011 have been reclassified to conform to the three months ended March 31, 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

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The table below is a summary of our cash balances at March 31, 2012 and December 31, 2011:

(In thousands)	March 31, 2012	December 31, 2011
Homebuilding	\$51,878	\$43,539
Financial services	15,100	16,254
Unrestricted cash and cash equivalents	\$66,978	\$59,793
Restricted cash	13,733	41,334
Total cash, cash equivalents and restricted cash	\$80,711	\$101,127

Restricted cash at March 31, 2012 consists of homebuilding cash the Company had pledged as collateral in accordance with the five secured Letter of Credit Facilities. The reduction in restricted cash at March 31, 2012 compared to December 31, 2011 was

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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. Please see Note 11 for more information regarding the 2012 Amendment. Restricted cash also includes cash held in escrow of \$0.2 million and less than \$0.1 million at March 31, 2012 and December 31, 2011, respectively.

NOTE 3. Fair Value Measurements

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

Assets Measured on a Recurring Basis

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

In the normal course of business, our financial services segment enters into contractual commitments to extend credit to buyers of single-family homes with fixed expiration dates. The commitments become effective when the borrowers "lock-in" a specified interest rate within established time frames. Market risk arises if interest rates move adversely between the time of the "lock-in" of rates by the borrower and the sale date of the loan to an investor. To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers, the Company enters into optional or mandatory delivery forward sale contracts to sell whole loans and mortgage-backed securities to broker/dealers. The forward sale contracts lock in an interest rate and price for the sale of loans similar to the specific rate lock commitments. The Company does not engage in speculative or trading derivative activities. Both the rate lock commitments to borrowers and the forward sale contracts to broker/dealers or investors are undesignated derivatives, and accordingly, are marked to fair value through earnings. Changes in fair value measurements are included in earnings in the accompanying statements of operations.

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

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

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 March 31, 2012 and December 31, 2011:

Description of financial instrument (in thousands)	March 31, 2012	December 31, 2011
Best effort contracts and related committed IRLCs	\$2,405	\$1,088
Uncommitted IRLCs	40,731	25,912
FMBSs related to uncommitted IRLCs	40,000	26,000
Best effort contracts and related mortgage loans held for sale	5,507	14,058
FMBSs related to mortgage loans held for sale	38,000	42,000
Mortgage loans held for sale covered by FMBSs	37,962	42,227

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

Description of Financial Instrument (in thousands)	Fair Value Measurements March 31, 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	\$45,345	\$—	\$45,345	\$—
Forward sales of mortgage-backed securities	295	—	295	—
Interest rate lock commitments	311	—	311	—
Best-efforts contracts	(60)	—	(60)	—
Total	\$45,891	\$—	\$45,891	\$—
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 gain (loss) recognized, within our financial services revenue in the Unaudited Condensed Consolidated Statements of Operations, on assets and liabilities measured on a recurring basis:

Description (in thousands)	Three Months Ended March 31,	
	2012	2011
Mortgage loans held for sale	\$(597	)\$2,031
Forward sales of mortgage-backed securities	765	50
Interest rate lock commitments	(47)46
Best-efforts contracts	71	(195)

Total gain (loss) recognized	\$192	\$1,932
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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:

Description of Derivatives	Asset Derivatives		Liability Derivatives	
	March 31, 2012		March 31, 2012	
	Balance Sheet Location	Fair Value (in thousands)	Balance Sheet Location	Fair Value (in thousands)
Forward sales of mortgage-backed securities	Other assets	\$295	Other liabilities	\$—
Interest rate lock commitments	Other assets	311	Other liabilities	—
Best-efforts contracts	Other assets	—	Other liabilities	60
Total fair value measurements		\$606		\$60
Description of Derivatives	Asset Derivatives		Liability Derivatives	
	December 31, 2011		December 31, 2011	
	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 historical absorption rate in 2011 was 1.7 per community per month. 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 March 31, 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 table below shows the level and measurement of assets and liabilities measured on a non-recurring basis as of and for the three months ended March 31, 2012 and as of and for the year ended December 31, 2011:

Description of asset or liability (In thousands)	Fair Value Measurements March 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)	Total Losses
Inventory	\$—	\$—	\$—	\$—	\$95
Investments in Unconsolidated LLCs	—	—	—	—	—
Total fair value measurements	\$—	\$—	\$—	\$—	\$95
Description of asset or liability (In thousands)	Fair Value Measurements December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)	Total Losses
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
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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 March 31, 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).

(In thousands)	March 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash, cash equivalents and restricted cash	\$80,711	\$80,711	\$101,127	\$101,127
Mortgage loans held for sale	45,345	45,345	57,275	57,275
Split dollar life insurance policies (a)	719	663	719	655
Notes receivable (a)	851	766	851	753
Commitments to extend real estate loans	311	311	356	356
Forward sales of mortgage-backed securities	295	295	—	—
Liabilities:				
Note payable - banks	41,580	41,580	52,606	52,606
Mortgage notes payable (a)	5,434	5,353	5,521	6,076
Senior Notes (a)	239,118	240,227	239,016	218,925
Best-efforts contracts for committed IRLCs and mortgage loans held for sale	60	60	470	470
Forward sales of mortgage-backed securities	—	—	129	129
Off-Balance Sheet Financial Instruments:				
Letters of credit	—	534	—	792

(a) The fair value of our split dollar life insurance policies, notes receivable and mortgage notes payable utilizes Level 2 measurement inputs, while the fair value of the Company's Senior Notes utilizes Level 1 measurement inputs.

The following methods and assumptions were used by the Company in estimating its fair value disclosures of financial instruments at March 31, 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, Note Payable - Other and Senior Notes. The fair value of these financial instruments was determined based upon market quotes at March 31, 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.

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

Note Payable - Banks. The interest rate available to the Company fluctuates with the Alternate Base Rate or the Eurodollar Rate (for 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 \$31.6 million and \$35.8 million represent potential commitments at March 31, 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.

NOTE 4. Inventory

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

(In thousands)	March 31, 2012	December 31, 2011
Single-family lots, land and land development costs	\$254,609	\$242,372
Land held for sale	3,243	—
Homes under construction	185,242	181,483
Model homes and furnishings - at cost (less accumulated depreciation: March 31, 2012 - \$4,819; December 31, 2011 - \$4,340)	31,072	27,662
Community development district infrastructure	5,610	5,983
Land purchase deposits	4,043	2,676
Consolidated inventory not owned	6,239	6,596
Total inventory	\$490,058	\$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 includes homes that are in various stages of construction. As of March 31, 2012 and December 31, 2011, we had 499 homes (with a carrying value of \$66.0 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. For the three months ended March 31, 2012, the Company wrote off less than \$0.1 million in option deposits and pre-acquisition costs. Refer to Note 5 for additional details relating to write-offs of land option deposits and pre-acquisition costs.

NOTE 5. Valuation Adjustments and Write-offs

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

A summary of the Company's valuation adjustments and write-offs for the three months ended March 31, 2012 and 2011 is as follows:

(In thousands)	Three Months Ended March 31,	
	2012	2011
Impairment of operating communities:		
Midwest	\$—	\$2,868
Southern	—	1,764
Total impairment of operating communities (a)	\$—	\$4,632
Impairment of future communities:		
Midwest	\$—	\$2,144
Southern	—	3,455
Total impairment of future communities (a)	\$—	\$5,599
Impairment of land held for sale:		
Midwest	\$95	\$—
Southern	—	590
Total impairment of land held for sale (a)	\$95	\$590
Option deposits and pre-acquisition costs write-offs:		
Midwest	\$2	\$21
Southern	7	8
Mid-Atlantic	22	229
Total option deposits and pre-acquisition costs write-offs (b)	\$31	\$258
Impairment of investments in Unconsolidated LLCs:		
Southern	—	50
Total impairment of investments in Unconsolidated LLCs (a)	\$—	\$50
Total impairments and write-offs of option deposits and pre-acquisition costs	\$126	\$11,129

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

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

NOTE 6. Capitalized Interest

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

(In thousands)	Three Months Ended March 31,	
	2012	2011
Capitalized interest, beginning of period	\$18,869	\$20,075
Interest capitalized to inventory	1,866	2,162
Capitalized interest charged to cost of sales	(2,565)	(2,338)

Capitalized interest, end of period	\$18,170	\$19,899
Interest incurred — net	\$6,472	\$6,197

NOTE 7. Investment in Unconsolidated Limited Liability Companies

At March 31, 2012, the Company had interests ranging from 33% to 50% in Unconsolidated LLCs that do not meet the criteria of variable interest entities because each of the entities had sufficient equity at risk to permit the entity to finance its activities without additional subordinated support from the equity investors, and one of these Unconsolidated LLCs has outside financing that is not guaranteed by the Company. These Unconsolidated LLCs engage in land acquisition and development activities for the purpose of selling or distributing (in the form of a capital distribution) developed lots to the Company and its partners in the entity. The Company's maximum exposure related to its investment in these entities as of March 31, 2012 was the amount invested of \$10.7 million. Included in the Company's investment in Unconsolidated LLCs at both March 31, 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 offers a limited warranty program in conjunction with a thirty-year transferable structural limited warranty on homes closed after September 30, 2007. This warranty program covers construction defects and certain damage resulting from construction defects for a statutory period based on geographic market and state law (currently ranging from five to ten years for the states in which the Company operates) and includes a mandatory arbitration clause. Prior to this warranty program, the Company provided up to a two-year limited warranty on materials and workmanship and a twenty-year (for homes closed between September 1, 1989 and April 24, 1998) and a thirty-year (for homes closed after April 24, 1998) transferable limited warranty against major structural defects. Warranty expense is accrued as the home sale is recognized and is intended to cover estimated material and outside labor costs to be incurred during the warranty period.

The accrual amounts are based upon historical experience and geographic location. Our warranty accruals are included in Other liabilities in the Company's Unaudited Condensed Consolidated Balance Sheets. A summary of warranty activity for the three months ended March 31, 2012 and 2011 is as follows:

(In thousands)	Three Months Ended March 31,	
	2012	2011
Warranty accrual, beginning of period	\$9,025	\$8,335
Warranty expense on homes delivered during the period	1,042	869
Changes in estimates for pre-existing warranties	(57)	(130)
Settlements made during the period	(1,462)	(1,149)
Warranty accrual, end of period	\$8,548	\$7,925

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 \$9.9 million and \$53.0 million were covered under the above guarantees as of March 31, 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 March 31, 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 three months ended March 31, 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 \$4.6 million at both March 31, 2012 and December 31, 2011. 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 March 31, 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 March 31, 2012 and December 31, 2011, respectively, which is management's best estimate of the Company's liability.

At March 31, 2012, the Company had outstanding \$41.4 million of 6.875% Senior Notes due 2012 (the "2012 Senior Notes"), which were fully and unconditionally guaranteed jointly and severally by all of the Company's wholly-owned subsidiaries (please see Note 17 for more information regarding our repayment of the 2012 Senior Notes on April 2, 2012). At March 31, 2012, the Company also had outstanding \$200 million aggregate principal amount of 8.625% Senior Notes due 2018 (the "2018 Senior Notes"). The Company's obligations under both the 2018 Senior Notes and the Credit Facility are guaranteed 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 March 31, 2012, the Company had outstanding approximately \$63.9 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) \$20.6 million of performance and maintenance bonds and \$23.3 million of performance letters of credit that serve as completion bonds for land development work in progress; (2) \$11.0 million of financial letters of credit, of which \$2.8 million represent deposits on land and lot purchase agreements; and (3) \$9.0 million of financial bonds.

As of March 31, 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. While we are continuing to investigate whether other homes are affected, the number of additional affected homes newly identified each quarter has declined significantly since 2009 to a nominal amount. As of March 31, 2012, we have completed the repair of 80 homes, are in the process of repairing nine homes, and are continuing to seek the authorization of the remaining homeowners to repair their homes. In consideration for performing these repairs, we received from the homeowner a full release of claims (excluding, in nearly all cases, personal injury claims) arising from the defective drywall. Since 2009, the Company has accrued approximately \$13.0 million for the repair of these 93 homes. The remaining balance in this accrual is \$0.9 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 March 31, 2012, the Company also had options and contingent purchase agreements to acquire land and developed lots with an aggregate purchase price of approximately \$151.4 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 Company intends to vigorously defend against the claims of the remaining plaintiffs. Given the inherent uncertainties in this litigation, as of March 31, 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 both March 31, 2012 and December 31, 2011, we had \$0.5 million reserved for legal expenses.

NOTE 11. Debt

Notes Payable - Homebuilding

On January 31, 2012, the Company entered into the 2012 Amendment. Among other things, the 2012 Amendment amends the Credit Facility in the following respects: (1) the maturity date was extended from June 9, 2013 to December 31, 2014; (2) the Company may increase the amount of the Credit Facility up to \$175 million in aggregate, contingent on obtaining additional commitments from lenders; (3) the interest coverage covenant in the Credit Facility was amended to require the Company 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 Interest Coverage Ratio and ACFO Ratio (as each is defined in the Credit Agreement) are both less than 1.50 (previously, the Company was required to maintain \$25 million of cash pledged to the lenders if both of the interest coverage ratios were less than 1.50); (4) the aggregate commitment of the Credit Facility will begin to decrease in increments of \$20 million on a quarterly basis, beginning September 30, 2013, if the Interest Coverage Ratio and ACFO Ratio are both less than 1.50, provided that this provision does not apply if, at the time of determination, the aggregate commitments of the lenders are less than or equal to \$80 million and the Company has maintained an ACFO Ratio of greater than 1.10 to 1.00 for the trailing two fiscal quarters; (5) a component was added to the Secured Borrowing Base to allow up to \$25 million of availability based on mortgaged real property for which appraisals and other requirements have not been completed, for a period of up to 120 days, based on 35% of the aggregate book value of such mortgaged real property; and (6) the maximum dollar amount of letters of credit that may be issued under the Credit Agreement was increased to \$40 million from \$25 million.

At March 31, 2012, borrowing availability under the Credit Facility was \$66.8 million in accordance with the borrowing base calculation, and there were no borrowings outstanding and \$18.3 million of letters of credit outstanding under the Credit Facility, leaving net remaining borrowing availability of \$48.5 million. At March 31, 2012, the Company had pledged \$202.8 million in aggregate book value of inventory to secure any borrowings and letters of credit outstanding under the Credit Facility. At March 31, 2012, the Company was in compliance with all financial covenants of the Credit Facility.

At March 31, 2012, there was \$13.2 million of outstanding letters of credit under the Company's five secured Letter of Credit Facilities, which was collateralized with \$13.6 million of the Company's cash.

Notes Payable — Financial Services

In March 2012, we entered into the Second Amendment to the MIF Mortgage Warehousing Agreement, which, among other things, increased our availability from \$60.0 million to \$70.0 million and extended the maturity from March 31, 2012 to March 30, 2013.

At March 31, 2012, M/I Financial had \$41.6 million outstanding under the MIF Mortgage Warehousing Agreement, and was in compliance with all financial covenants of that agreement.

Senior Notes

As of March 31, 2012, we had \$41.4 million of our 2012 Senior Notes and \$200.0 million of our 2018 Senior Notes outstanding. The 2012 Senior Notes and the 2018 Senior Notes are general, unsecured senior obligations of the Company and the subsidiary guarantors and rank equally in right of payment with all our existing and future unsecured senior indebtedness. The 2012 Senior Notes are fully and unconditionally guaranteed on a senior unsecured basis by all of our wholly-owned subsidiaries. The parent company has no independent assets or operations, and any subsidiaries of the parent company, other than the subsidiary guarantors of the 2012 Senior Notes, are minor. The 2018 Senior Notes are fully and unconditionally guaranteed on a senior unsecured basis by all of our subsidiaries, with the exception of subsidiaries that are primarily engaged in the business of mortgage financing, the origination of mortgages for resale, title insurance or similar financial businesses relating to the homebuilding and home sales business and certain subsidiaries that are not wholly-owned by the Company or another subsidiary.

The indenture governing our 2012 Senior Notes and the indenture governing our 2018 Senior Notes contain restrictive covenants that limit, among other things, the ability of the Company to pay dividends on common and preferred shares, or repurchase any

shares. If our "restricted payments basket," as defined in each of the indentures, is less than zero, we are restricted from making certain payments, including dividends, as well as from repurchasing any shares. At March 31, 2012, the restricted payments basket was \$(219.7) million under the indenture governing our 2012 Senior Notes, and \$(13.6) 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 2012 Senior Notes and the indenture governing our 2018 Senior Notes, we are currently restricted from paying dividends on our common shares and our 9.75% Series A Preferred Shares, and from repurchasing any of our common or preferred shares. These restrictions do not affect our compliance with any of the covenants contained in the Credit Facility. See Note 17 for a description of our repayment of the 2012 Senior Notes in April 2012.

NOTE 12. Loss Per Share

Loss per share is calculated based on the weighted average number of common shares outstanding during each period. There are no adjustments to net loss necessary in the calculation of basic or diluted loss per share. The table below presents information regarding basic and diluted loss per share for the three months ended March 31, 2012 and 2011:

	Three Months Ended March 31,			2011		
	2012		Loss per share	2011		Loss per share
(In thousands, except per share amounts)	Loss	Shares		Loss	Shares	
Net loss to common shareholders	\$(3,186)	18,772	\$(0.17)	\$(17,039)	18,615	\$(0.92)
Diluted loss to common shareholders	\$(3,186)	18,772	\$(0.17)	\$(17,039)	18,615	\$(0.92)
Anti-dilutive stock equivalent awards not included in the calculation of diluted loss per share		2,227			2,193	

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 losses, to determine if a valuation allowance is required. We are required to assess whether a valuation allowance should be established based on the consideration of all available evidence using a "more likely than not" standard. In making such judgments, significant weight is given to evidence that can be objectively verified. A cumulative loss in recent years is significant negative evidence in considering whether deferred tax assets are realizable, and also restricts the amount of reliance on projections of future taxable income to support the recovery of deferred tax assets. The Company's current and prior year losses present the most significant negative evidence as to whether the Company needs to reduce its deferred tax assets with a valuation allowance. We are currently in a four-year cumulative pre-tax loss position. We currently believe the cumulative weight of the negative evidence exceeds that of the positive evidence and, as a result, it is more likely than not that we will not be able to utilize all of our deferred tax assets. Therefore, during the three months ended March 31, 2012, the Company recorded an additional valuation allowance of \$1.1 million, for a total valuation allowance recorded of \$141.9 million, against its deferred tax assets. We do not expect to record any additional tax benefits in 2012 as our

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

At March 31, 2012, the Company had federal net operating loss carryforwards of approximately \$84.6 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 Triumph Homes, a privately-held homebuilder based in Houston, Texas.

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

The following table shows, by segment, revenue, operating income (loss) and interest expense for the three months ended March 31, 2012 and 2011, as well as the Company's loss before income taxes for such periods:

(In thousands)	Three Months Ended	
	March 31, 2012	2011
Revenue:		
Midwest homebuilding	\$56,953	\$50,472
Southern homebuilding	29,072	16,936
Mid-Atlantic homebuilding	40,784	39,962
Financial services	4,316	3,200
Total revenue	\$131,125	\$110,570
Operating income (loss):		
Midwest homebuilding (a)	\$1,111	\$(4,620)
Southern homebuilding (a)	885	(6,634)
Mid-Atlantic homebuilding (a)	461	1,193
Financial services	2,436	1,622
Less: Corporate selling, general and administrative expenses	(4,661)	(4,492)
Total operating income (loss)	\$232	\$(12,931)
Interest expense:		
Midwest homebuilding	\$1,726	\$1,881
Southern homebuilding	802	536
Mid-Atlantic homebuilding	1,710	1,348

Financial services	368	270
Total interest expense	\$4,606	\$4,035
Loss before income taxes	\$(4,374)	\$(16,966)

For the three months ended March 31, 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 \$0.1 (a) million and \$11.1 million, respectively. These charges reduced operating income by \$0.1 million and \$5.0 million in the Midwest region, less than \$0.1 million and \$5.9 million in the Southern region and less than \$0.1 million and \$0.2 million in the Mid-Atlantic region for the three months ended March 31, 2012 and 2011, respectively.

The following tables show total assets by segment:

March 31, 2012					
(In thousands)	Midwest	Southern	Mid-Atlantic	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	\$680	\$1,214	\$2,149	\$—	\$4,043
Inventory (a)	192,601	96,837	196,577	—	486,015
Investments in unconsolidated entities	5,222	5,494	—	—	10,716
Other assets	6,611	3,123	7,082	140,143	156,959
Total assets	\$205,114	\$106,668	\$205,808	\$140,143	\$657,733

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 entities	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

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

NOTE 15. Supplemental Guarantor Information

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

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

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

As of March 31, 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.

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

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

(In thousands)	Three Months Ended March 31, 2012				
	M/I Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$—	\$126,809	\$4,316	\$—	\$131,125
Costs and expenses:					
Land and housing	—	107,330	—	—	107,330
Impairment of inventory and investment in Unconsolidated LLCs	—	95	—	—	95
General and administrative	—	10,479	1,978	—	12,457
Selling	—	11,010	1	—	11,011
Interest	—	4,238	368	—	4,606
Total costs and expenses	—	133,152	2,347	—	135,499
(Loss) income before income taxes	—	(6,343	) 1,969	—	(4,374)
(Benefit) provision for income taxes	—	(1,880	) 692	—	(1,188)
Equity in subsidiaries	(3,186	) —	—	3,186	—
Net (loss) income	\$3,186	\$(4,463	) \$1,277	\$(3,186	) \$(3,186)
(In thousands)	Three Months Ended March 31, 2011				
	M/I Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$—	\$107,370	\$3,200	\$—	\$110,570
Costs and expenses:					
Land and housing	—	92,574	—	—	92,574
Impairment of inventory and investment in Unconsolidated LLCs	—	10,871	—	—	10,871
General and administrative	—	9,698	1,704	—	11,402
Selling	—	8,654	—	—	8,654
Interest	—	3,765	270	—	4,035
Total costs and expenses	—	125,562	1,974	—	127,536
(Loss) income before income taxes	—	(18,192	) 1,226	—	(16,966)
(Benefit) provision for income taxes	—	(355	) 428	—	73
Equity in subsidiaries	-2070	0	0	2070	—
	(17,039	) —	—	17,039	—
Net (loss) income	\$(17,039	) \$(17,837	) \$798	\$17,039	\$(17,039)

CONDENSED CONSOLIDATING BALANCE SHEET

(In thousands)	March 31, 2012				Consolidated
	M/I Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
ASSETS:					
Cash and cash equivalents	\$—	\$51,878	\$ 15,100	\$ —	\$66,978
Restricted cash	—	13,733	—	—	13,733
Mortgage loans held for sale	—	—	45,345	—	45,345
Inventory	—	490,058	—	—	490,058
Property and equipment - net	—	13,432	99	—	13,531
Investment in Unconsolidated LLCs	—	—	10,716	—	10,716
Investment in subsidiaries	377,523	—	—	(377,523)	—
Intercompany	125,800	(115,691)	(10,109)	—	—
Other assets	6,810	9,554	1,008	—	17,372
TOTAL ASSETS	\$510,133	\$462,964	\$ 62,159	\$ (377,523)	\$657,733
LIABILITIES AND SHAREHOLDERS' EQUITY					
LIABILITIES:					
Accounts payable	\$—	\$40,744	\$ 324	\$ —	\$41,068
Customer deposits	—	8,334	—	—	8,334
Other liabilities	—	38,245	4,295	—	42,540
Community development district obligations	—	5,610	—	—	5,610
Obligation for consolidated inventory not owned	—	2,587	—	—	2,587
Note payable bank - financial services operations	—	—	41,580	—	41,580
Note payable - other	—	5,881	—	—	5,881
Senior notes	239,118	—	—	—	239,118
TOTAL LIABILITIES	239,118	101,401	46,199	—	386,718
Shareholders' equity	271,015	361,563	15,960	(377,523)	271,015
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$510,133	\$462,964	\$ 62,159	\$ (377,523)	\$657,733

CONDENSED CONSOLIDATING BALANCE SHEET

(In thousands)	December 31, 2011				Consolidated
	M/I Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
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

(In thousands)	Three Months Ended March 31, 2012				Consolidated
	M/I Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash (used in) provided by operating activities	\$—	\$ (19,041)	\$ 11,366	\$—	\$(7,675)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Restricted cash	—	27,740	—	—	27,740
Purchase of property and equipment	—	(47)	—	—	(47)
Investments in and advances to LLCs	—	—	(361)	—	(361)
Net cash provided by (used in) investing activities	—	27,693	(361)	—	27,332
CASH FLOWS FROM FINANCING ACTIVITIES:					
Repayments of bank borrowings - net	—	—	(11,026)	—	(11,026)
Principal repayments of note payable - other and community development district bond obligations	—	80	—	—	80
Intercompany financing	(367)	1,500	(1,133)	—	—
Debt issue costs	—	(1,893)	—	—	(1,893)
Proceeds from exercise of stock options	367	—	—	—	367
Net cash used in financing activities	—	(313)	(12,159)	—	(12,472)
Net increase (decrease) in cash and cash equivalents	—	8,339	(1,154)	—	7,185
Cash and cash equivalents balance at beginning of period	—	43,539	16,254	—	59,793
Cash and cash equivalents balance at end of period	\$—	\$ 51,878	\$ 15,100	\$—	\$66,978

(In thousands)	Three Months Ended March 31, 2011				Consolidated
	M/I Homes, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash (used in) provided by operating activities	\$—	\$ (9,289)	\$ 11,916	\$—	\$2,627
CASH FLOWS FROM INVESTING ACTIVITIES:					
Restricted cash	—	1,569	—	—	1,569
Purchase of property and equipment	—	(332)	—	—	(332)
Return of investment from Unconsolidated LLCs	—	—	(243)	—	(243)
Net cash provided by (used in) investing activities	—	1,237	(243)	—	994

CASH FLOWS FROM FINANCING
ACTIVITIES:

Repayments of bank borrowings - net	—	—	(6,173	)—	(6,173)
Principal repayments of note payable - other and community development district bond obligations	—	(80	)—	—	(80)
Intercompany financing	(1,785	) (354	) 2,139	—	—	
Proceeds from exercise of stock options	1,416	—	—	—	1,416	
Excess tax deficiency from stock-based payment arrangements	369	—	—	—	369	
Net cash used in financing activities	—	(434	) (4,034	)—	(4,468)
Net (decrease) increase in cash and cash equivalents	—	(8,486	) 7,639	—	(847)
Cash and cash equivalents balance at beginning of period	—	71,874	9,334	—	81,208	
Cash and cash equivalents balance at end of period \$—		\$ 63,388	\$ 16,973	\$—	\$ 80,361	

NOTE 16. Stock-Based Compensation

On February 8, 2012, the Company awarded 310,500 annual service-based stock options under the Company's 2009 Long-Term Incentive Plan (the "2009 LTIP") that vest 20% annually over five years, with 155,250 of the options being subject to shareholder approval of the proposed amendment to the 2009 LTIP (which amendment increases the number of common shares available for issuance under the 2009 LTIP by 900,000). The stock options were granted at an exercise price of \$12.23, which represents the closing price of the Company's common shares on the date of grant. The grant date fair value of the stock options (\$5.85) was determined at the date of grant using the Black-Scholes option pricing model.

Total recorded compensation expense relating to equity awards granted under the 2009 LTIP was approximately \$0.4 million for the three months ended March 31, 2012, which includes compensation cost recognized on the basis of the proportion of service rendered over the period of February 8, 2012 through March 31, 2012 of the conditional stock options discussed above.

NOTE 17. Subsequent Events

At maturity, on April 2, 2012, the Company repaid the \$41.4 million aggregate principal amount outstanding of the 2012 Senior Notes. As a result, the indenture governing the 2012 Senior Notes is no longer applicable to the Company.

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 81,000 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 to identify such forward-looking statements. These statements involve a number of risks and uncertainties. Any forward-looking statements that we make herein and in future reports and statements are not guarantees of future performance, and actual results may differ materially from those in such forward-looking statements as a result of various risk factors. Please see “Item 1A. Risk Factors” in Part I of our Annual Report on Form 10-K for the year ended December 31, 2011.

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

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES AND POLICIES

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

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

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

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

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

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

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

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

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

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

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

As of March 31, 2012, our projections generally assume a gradual improvement in market conditions over time, along with a gradual increase in costs. These assumed gradual increases generally begin in 2013. If communities are not recoverable based on undiscounted cash flows, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. The fair value of a community is estimated by discounting management's cash flow projections using an appropriate risk-adjusted interest rate. As of March 31, 2012, we utilized discount rates ranging from 13% to 16% in our valuations. The discount rate used in determining each asset's estimated fair value reflects the inherent risks associated with the related estimated cash flow stream, as well as current risk-free rates available in the market and estimated market risk premiums. For example, construction in progress inventory, which is closer to completion, will generally require a lower discount rate than land under development in communities consisting of multiple phases spanning several years of development.

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

In order to estimate the assumed absorption pace for home sales included in the Company's cash flow models, the Company analyzes the historical absorption pace in the community as well as other communities in the geographic area. Our overall historical absorption rate in 2011 was 1.7 per community per month. In addition, the Company considers internal and external market studies and trends, which may include, but are not limited to, statistics on population demographics, unemployment rates, foreclosure sales, and availability of competing products in the geographic area where a community is located. When analyzing the Company's historical absorption pace for home sales and corresponding internal and external market studies, the Company places greater emphasis on more current metrics and trends such as the absorption pace realized in its most recent quarters and management's most current assessment of sales pace.

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

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

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

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

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

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

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

The Company evaluates its investment in unconsolidated limited liabilities companies ("Unconsolidated LLCs") for potential impairment on a quarterly basis. If the fair value of the investment is less than the investment's carrying

value and the Company has determined that the decline in value is other than temporary, the Company would write down the value of the investment to fair value. The determination of whether an investment's fair value is less than the carrying value requires management to make certain assumptions regarding the amount and timing of future contributions to the Unconsolidated LLC, the timing of distribution of lots to the Company from the Unconsolidated LLC, the projected fair value of the lots at the time of distribution to the Company, and the estimated proceeds from, and timing of, the sale of land or lots to third parties. In determining the fair value of investments in Unconsolidated LLCs, the Company evaluates the projected cash flows associated with each Unconsolidated LLC. As of March 31, 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.

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

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

• Home Builder's Limited Warranty; and
• 30-year transferable structural warranty.

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

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

Self-insurance. Self-insurance accruals are made for estimated liabilities associated with employee health care, workers' compensation, and general liability insurance. For 2012, our self-insurance limit for employee health care is \$250,000 per claim per year, with stop loss insurance covering amounts in excess of \$250,000. Our workers' compensation claims are insured by a third party and carry a deductible of \$250,000 per claim, with maximum incurred losses not to exceed \$425,000, except for claims made in the state of Ohio where the Company is self-insured. Our self-insurance limit for Ohio workers' compensation is \$500,000 per claim, with stop loss insurance covering all amounts in excess of this limit. The accruals related to employee health care and workers' compensation are based on historical experience and open case reserves. Our general liability claims are insured by a third party; the Company generally has a \$7.5 million deductible per occurrence and a \$30.0 million deductible in the aggregate, with lower deductibles for certain types of claims. The Company records a general liability accrual for claims falling below the Company's deductible. The general liability accrual estimate is based on an actuarial evaluation of our past history

of claims, other industry specific factors and specific event analysis. The Company recorded expenses totaling \$1.5 million and \$0.6 million, respectively, for all self-insured and general liability claims during the three months ended March 31, 2012 and 2011. Because of the high degree of judgment required in determining these estimated accrual amounts, actual future costs could differ from our current estimated amounts. Please see Note 9 to our Unaudited Condensed Consolidated Financial Statements for more information regarding expenses relating to defective drywall.

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

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

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

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

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

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

Examples of negative evidence may include:

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

unsettled circumstances that, if unfavorably resolved, would adversely affect future operations and profit levels on a continuing basis.

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

The Company's current and prior year losses present the most significant negative evidence as to whether the Company needs to reduce its deferred tax assets with a valuation allowance. We are currently in excess of a four-year cumulative pre-tax loss position. We currently believe the cumulative weight of the negative evidence exceeds that of the positive evidence and, as a result, it is more likely than not that we will not be able to utilize all of our deferred tax assets. Therefore, as of March 31, 2012, the Company had a total valuation allowance of \$141.9 million recorded. The accounting for deferred taxes is based upon an estimate of future results. Differences between the anticipated and

actual outcomes of these future tax consequences could have a material impact on the Company's consolidated results of operations or financial position.

Future adjustments to our deferred tax asset valuation allowance will be determined based upon changes in the expected realization of our net deferred tax assets. Additionally, our determination with respect to recording a valuation allowance may be further impacted by, among other things:

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

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

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 Triumph Homes, a privately-held homebuilder based in Houston, Texas.

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

Results and Trends for the Three Ended March 31, 2012

Overview

During the first three months 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, reflecting improving trends in the economy, which includes recent job growth and higher consumer confidence. This improvement is evident in our first quarter operating results as we experienced increased traffic, new contracts, homes delivered and backlog, as well as stabilizing sales prices across many of our open communities. However, we do believe the pace of recovery will be uneven, with

certain local markets showing more normalized activity and strength than others where a rebound in conditions will take longer to manifest given the persisting threat of a new wave of foreclosure activity and lower job growth.

While we do expect that the housing market, in general, will gradually strengthen in 2012 as the economy continues to improve, we do not believe 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 aimed at returning our operations to 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
- meaningful presence in our markets.

As a result of some of the action plans that we implemented in the second half of 2011 and improving operating conditions during the first quarter of 2012, we experienced a 15% increase in our homes delivered, a 17% increase in our new contracts, and a 2% increase in the average sales price of homes delivered. We also experienced a 25% increase in our homes in backlog as well as a 33% increase in the overall sales value of our backlog at March 31, 2012 compared to March 31, 2011. In addition, we continued to invest in new communities that are helping us in our effort to restore our profitability when and as housing markets improve. During the first three months of 2012, we opened 10 new communities and closed 10 old communities. Of our homes delivered during the first quarter of 2012, 63% of them were in new communities (defined by us as those having opened after January 1, 2009), compared to 45% during the first quarter of 2011, and we continued to see a higher gross margin (19%) in our new communities compared to our old communities (15%).

For the quarter ended March 31, 2012, total revenue increased \$20.5 million (19%), from \$110.6 million in the first quarter of 2011 to \$131.1 million in the first quarter of 2012. This increase was attributable to a 15% increase in homes delivered, from 439 in the first quarter of 2011 to 507 in the first quarter of 2012, along with an increase in the average sales price of homes delivered, from \$243,000 in the first quarter of 2011 to \$249,000 in the first quarter of 2012. Revenue in our financial services segment increased 34%, from \$3.2 million for the quarter ended March 31, 2011 to \$4.3 million for the quarter ended March 31, 2012, which was the result of a 38% increase in the number of loans originated, from 334 in the first quarter of 2011 to 461 in the first quarter of 2012.

Loss before income taxes decreased \$12.6 million, from \$17.0 million for the three months ended March 31, 2011 to \$4.4 million for the three months ended March 31, 2012. The 74% decrease was primarily due to the increase in revenue described above, along with lower impairment charges taken during the quarter ended March 31, 2012 compared to the quarter ended March 31, 2011. During the first quarter of 2012, the Company incurred charges totaling \$0.1 million related to the impairment of inventory and investment in Unconsolidated LLCs and abandoned land transaction costs, compared to \$11.1 million of like charges in the first quarter of 2011. Our adjusted operating gross margin percentage for the three months ended March 31, 2012 was 18.1% compared to 16.3% for the three months ended March 31, 2011. The Company had an adjusted pre-tax loss from operations of \$4.2 million for the quarter ended March 31, 2012, a 27% improvement when compared to 2011's first quarter adjusted pre-tax loss from operations. Please see the table set forth below which reconciles the non-GAAP financial measures of adjusted operating gross margin and adjusted pre-tax loss from operations to their respective most directly comparable GAAP financial measures, gross margin, and loss from operations before income taxes. Driving the \$1.6 million decrease in adjusted pre-tax loss from operations was the increase in gross margin described above, partially offset by a \$3.4 million increase in selling, general and administrative expenses. The increase in selling, general and administrative expenses was driven primarily by a \$1.2 million increase in variable selling expenses related to the increase in homes delivered; a \$1.0 million increase in payroll related expenses; a \$0.3 million increase in expenses related to our model homes; a \$0.2 million increase in advertising expenses; and a \$0.2 million increase in expenses related to our sales offices.

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For the quarter ended March 31, 2012, we had 764 new contracts, an increase of 17% compared to 654 new contracts for the quarter ended March 31, 2011. Our cancellation rate decreased to 14% for the quarter ended March 31, 2012 compared to 16% for the quarter ended March 31, 2011. Our homes in backlog increased 25%, from 747 units at March 31, 2011 to 933 units at March 31, 2012, which was primarily the result of the 17% increase in our new contracts in the first quarter of 2012 described above.

Our mortgage company's capture rate decreased from 84% for the three months ended March 31, 2011 to 80% for the three months ended March 31, 2012