M I HOMES INC
Form 10-K
February 27, 2012
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2011
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission File Number 1-12434

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

Ohio	31-1210837
(State or other jurisdiction of incorporation or organization)	(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)

Title of each class	Name of each exchange on which registered
Common Shares, par value $.01	New York Stock Exchange
Depositary Shares, each representing 1/1000th of a 9.75% Series A Preferred Share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No X

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No X

As of June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common shares (its only class of common equity) held by non-affiliates (18,016,315 shares) was approximately $220,880,000. The number of common shares of the registrant outstanding as of February 21, 2012 was 18,777,677.

DOCUMENT INCORPORATED BY REFERENCE
Portions of the registrant's definitive proxy statement for the 2012 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

Item 1. BUSINESS

General

M/I Homes, Inc. and subsidiaries (the “Company,” “we,” “us” or “our”) is one of the nation's leading builders of single-family homes. The Company was incorporated, through predecessor entities, in 1973 and commenced homebuilding activities in 1976. Since that time, the Company has delivered over 80,000 homes, including 2,278 in 2011.

The Company consists of two distinct operations and reporting segments: homebuilding and financial services. Our homebuilding operations, for reporting purposes, are divided into three reporting segments - the Midwest, Mid-Atlantic and Southern regions. Our financial services operations support our homebuilding operations by providing mortgage loans and title services to the customers of our homebuilding operations.

Our homebuilding operations comprise the most substantial portion of our business, representing 97% of consolidated revenue during 2011 and 98% of consolidated revenue during 2010. We design, market, construct and sell single-family homes, attached townhomes, and condominiums to first-time, move-up, empty-nester and luxury buyers, with a particular focus on first-time and value-focused buyers. Our homes are offered primarily in development communities and mixed-use communities. We use the term “home” to refer to a single-family residence, whether it is a single-family home or other type of residential property, and we use the term “community” to refer to a single development in which homes are constructed as part of an integrated plan. We are currently offering homes for sale in 122 communities within 11 markets located in nine states. We offer a variety of homestyles at base prices ranging from approximately $107,000 to $1,000,000, with an average sales price in 2011, including options, of $242,000. Offering homes at a variety of price points allows us to attract a wide range of buyers. We believe that we distinguish ourselves from competitors by offering homes in select areas with a high level of design and construction quality within a given price range, and by providing customers with the confidence they can only get from superior customer service. In addition to home sales, our homebuilding operations occasionally generate revenue from the sale of land and lots.

Our financial services operations generate revenue from originating and selling mortgages and collecting fees for title insurance and closing services. We offer mortgage banking services to our homebuyers through our wholly-owned subsidiary, M/I Financial Corp. (“M/I Financial”). Our title services are offered through subsidiaries that are either wholly- or majority owned by the Company. Our financial services operations accounted for 3% of our consolidated revenues in 2011 and 2% of our consolidated revenues in 2010.

In 2011, we generated total revenues of $566.4 million and a net loss of $33.9 million, compared to total revenues of $616.4 million and a net loss of $26.3 million in 2010. At December 31, 2011, we had 676 homes in backlog with a sales value of $180.7 million compared to 532 homes in backlog with a sales value of $135.2 million at December 31, 2010. Our financial results for 2011 and 2010 reflect challenging operating conditions that have persisted in the homebuilding industry to varying degrees since a general housing market downturn began in mid-2006, as well as strategic actions taken by us since the downturn began in an effort to align our operations with these changing market conditions and maintain a strong financial position.

Our principal executive offices are located at 3 Easton Oval, Suite 500, Columbus, Ohio 43219. The telephone number of our corporate headquarters is (614) 418-4000 and our website address is http://mihomes.com. Information on our web site is not a part of this Form 10-K.

Markets

Our 11 homebuilding divisions are organized into the following three segments for reporting purposes:

Region	Market/Division	Year Operations Commenced
Midwest	Columbus, Ohio	1976
Midwest	Cincinnati, Ohio	1988
Midwest	Indianapolis, Indiana	1988
Midwest	Chicago, Illinois	2007
Southern	Tampa, Florida	1981
Southern	Orlando, Florida	1984
Southern	Houston, Texas	2010
Southern	San Antonio, Texas	2011
Mid-Atlantic	Charlotte, North Carolina	1985
Mid-Atlantic	Raleigh, North Carolina	1986
Mid-Atlantic	Washington, D.C.	1991

We believe we have experienced management teams in each of our divisions, with local market expertise. We believe that our business requires in-depth knowledge of local markets in order to acquire land in desirable locations and on favorable terms, to engage subcontractors, to plan communities that meet local demand, to anticipate consumer tastes in specific markets, and to assess local regulatory environments. Though we centralize certain functions (such as marketing, legal, purchasing administration, product development, accounting and human resources) to benefit from economies of scale, our local management, while generally supervised by a Region President, exercises considerable autonomy in identifying land acquisition opportunities, developing and implementing product and sales strategies, and controlling costs.

Business Strategy

New home sales across most housing markets in the United States remained at historically low levels in 2011. Many of these markets, including those we serve, experienced a prolonged downturn in demand from mid-2006 through 2009, compared to the period from 2000 through 2005, and the levels of housing permits and new home sales did not increase in 2010 or 2011. Instead, market activity largely held steady, without further substantial declines. Although the economy has started to show signs of improvement, new home sales have continued to decrease nationally since 2009, with 302,000 new homes sold in the U.S. in 2011, compared with 323,000 sold in 2010 and 375,000 sold in 2009.
The downturn in the housing market, which started even sooner in our Midwest markets, resulted in substantial losses for the homebuilding industry and led to a severe decline in our profitability. A persistent oversupply of homes for sale, coupled with weak consumer demand for housing, started to impact the homebuilding industry in mid-2006. Our operating and financial results, like many other homebuilders during this time, suffered materially. We experienced declines in new contracts, active communities, revenue, and gross profit, and we incurred substantial asset impairment charges and net losses for the years 2007, 2008 and 2009. Worldwide financial and credit market turbulence, which began in mid-2008, further exacerbated this downturn and macroeconomic conditions. We believe the availability of the federal homebuyer tax credit increased our new contracts in the first four months of 2010; however, upon its expiration, demand for housing once again became sluggish due to an overall weak economy, without substantial job growth, low levels of consumer confidence, an excess supply of homes for sale and tighter mortgage credit conditions. These conditions did not change markedly in 2011. Despite the lack of recovery in the housing market, we have been able to achieve certain improvements in our operating performance over the past three years through execution of our business strategy which focuses on the following integrated objectives:

- Strategically investing in new communities and/or markets, while building out of older, less profitable locations;
- maintaining a strong balance sheet;
- emphasizing customer service, product design, and premier locations;
- improving affordability through design changes and other cost reduction efforts; and
- maintaining a meaningful presence in our markets and associated scale efficiencies.

From 2007 through the first half of 2009, we employed a defensive operating strategy designed to strengthen our balance sheet, improve liquidity, generate cash flow, improve our cost structure, reduce our overhead, and improve certain operating processes and procedures. During this period, we sought to right-size our operations to reflect current demand, reduce our overhead cost structure, improve our operations from both a customer and build cycle-time perspective, redesign our product to address changing consumer preferences, re-engineer our product to reduce our cost to build, redeploy our investments to higher margin opportunities where possible and carefully manage our investment in new land and lots. The actions we took to support these initiatives resulted in material reductions in our controlled land and lots, active community count, employee headcount, and overhead expenses. We also improved our gross margins, generated significant cash from operations, and ultimately reduced our adjusted pre-tax losses (our adjusted pre-tax losses, which constitutes a non-GAAP financial measure, is reconciled to our loss before income taxes on page 35 of this Annual Report on Form 10-K) from 2007 through 2010. Our adjusted pre-tax loss increased, however, in 2011, to $10.9 million, from $7.7 million in 2010. This decline was primarily due to stronger new contracts in early 2010 as homebuyers sought to take advantage of the then-available federal homebuyer tax credit. In addition, we incurred higher interest costs in 2011 when compared to 2010 as a result of the refinancing of our senior notes due in 2012 in the last quarter of 2010. However, our adjusted pre-tax loss improved in the second half of 2011 when compared with the second half 2010.

In 2010 and 2011, we maintained the fundamentals of our disciplined defensive operating strategy, while we also began to focus more on the objectives within our business strategy that would position us for a recovery, primarily by investing in new communities and/or markets for modest growth overall. In late 2009, we began to see more opportunities to purchase land and lots in our existing markets that met our stringent investment and marketing standards. As a result, in 2010, we purchased more land and lots than we purchased in 2009, opened 41 new communities and increased our controlled land position by 9%. While we continued to invest in land and lots in 2011, we remained cautious due to the uncertain conditions in the housing markets, and thus we invested $35.7 million less in new land than we did in 2010, while our total controlled land position remained largely unchanged, at 10,353 lots. Although continued reinvestment in new communities (defined as communities opened after January 1, 2009) and completing our involvement in older communities remain important elements of our operating strategy, we have only marginally increased our level of new investment. We believe this deliberate approach will help restore our homebuilding operations to profitability through higher margin communities and increasing our market presence. Currently, over 65% of our active communities are new and on average, their gross margins are 500 basis points higher than our older "legacy" communities. In addition to our investment in new communities in our existing markets, in 2011, we purchased a small homebuilder in San Antonio, Texas in April 2011, expanding our geographic footprint.

Looking ahead into 2012, we believe the housing market will likely remain weak, though there are some signs of improved job creation and consumer confidence, combined with lower available inventories of homes, that could lead to marginal improvement in sales in some markets. Nonetheless, we expect no improvement in demand in 2012 overall, and thus we anticipate continued unevenness in sales conditions before a sustained recovery in the housing market takes hold. At this time, we cannot predict when such a recovery might occur. We plan to continue to focus on restoring the profitability of our homebuilding operations by focusing on actions that will help us achieve our business objectives as stated above. Market conditions will ultimately determine the timing, manner and the degree to which we will achieve our objectives. Despite the challenging market conditions, however, we believe we have established a solid foundation and the financial flexibility for our Company to achieve long-term growth and profitability when the housing market experiences an increase in demand.

Marketing

During 2011, we continued to focus our marketing efforts on first-time and move-up homebuyers. These homebuyers historically have been our core customers and we believe these groups hold the greatest potential for future home sales. Throughout our markets, we market and sell our homes under the M/I Homes, Showcase Homes and TriStone Homes trade names. Our marketing efforts are directed at differentiating the M/I Homes brand from other new home builders and from resale homes (including homes sold through foreclosures, short sales and other homebuilders). We believe, among other things, our exclusive Confidence Builder Program, our commitment to building energy efficient homes, our offering of competitively advantaged financing programs and our record of superior customer service and quality all serve to differentiate our brand.

Under our Confidence Builder Program, our homebuyers are introduced to their Personal Construction Supervisor prior to commencement of home construction. During the introductory meeting, the Personal Construction Supervisor reviews the home plan and all relevant construction details with the homebuyer and explains the construction process and schedule. Our homebuyers receive their own M/I hardhat. We encourage our buyers to actively monitor and observe the construction of their home and see the quality being built into their home. This program, consistent with our business philosophy, is designed to “put the buyer first” and enhance the total homebuying experience. We believe prompt and courteous responses to homebuyers' needs throughout the homebuying process reduces post-closing repair costs, enhances our reputation for quality and service, and helps encourage repeat and referral business from homebuyers and the real estate community. Certain of our employees are responsible for responding to homebuyers' post-closing needs, including warranty claims. Our goal is for our customers to be completely satisfied with their new homes.

We are a 100% ENERGY STAR® Certified builder. ENERGY STAR® Certified homes are more efficient than homes built to the latest building codes. The majority of the homes that we built in 2011 met the U.S. Environmental Protection Agency's (“EPA”) increasingly stringent guidelines for ENERGY STAR® Certified homes. We believe these homes can save our homebuyers up to 30% on their energy bill, the second largest monthly cost component of homeownership, when compared to a home that is not ENERGY STAR® certified.

We offer specialized mortgage financing programs through M/I Financial to assist our homebuyers. M/I Financial offers conventional financing options along with Federal Housing Administration (“FHA”), U.S. Veterans Administration (“VA”), the United States Department of Agriculture ("USDA") and state housing bond programs. M/I Financial often provides closing cost assistance and below market interest rates. For a good portion of 2011, M/I Financial provided a 30-year fixed rate loan at or below 3.875% to qualified homebuyers. Through M/I Financial, we continue to look for opportunities in the market to assist the Company's home sales effort.

Finally, we believe our ultimate differentiator comes from one of the principles our company was founded upon - delivering superior customer service. Superior customer service is “who we are” and what we are all about. Our customer satisfaction scores, as measured by an independent party, improved for most of our markets in 2011 for the third year in a row. We hold our teams to a higher standard when it comes to customer care. Our customer satisfaction scores are measured 30 days and 6 months after closing to hold us accountable for building a home of the highest quality.

We market our homes using the internet, newspapers, magazines, direct mail, billboards, radio and television. The particular media used differs from market to market based on area demographics and other competitive factors. In recent years we have also significantly increased our advertising on the internet by expanding our website at mihomes.com and through certain third party websites like newhomesource.com. We also launched a mobile version of our website that is increasingly becoming the doorway for our on-the-go prospects.

Sales

Company-employed sales consultants generally conduct home sales from on-site offices within our furnished model homes. Each sales consultant is trained and prepared to meet the buyer's expectations and build the buyer's confidence by fully explaining the features and benefits of our homes, helping each buyer determine which home best suits their needs, explaining the construction process, and assisting the buyer in choosing the best financing. Significant attention is given to the ongoing training of all sales personnel to assure the highest level of professionalism and product knowledge. As of December 31, 2011, we employed 121 new home consultants in 122 communities.

To further enhance the selling process, we operate design centers in most of our markets. Our design centers allow our homebuyers to select from thousands of product and design options that are available for purchase as part of the original construction of their homes. Additionally, our centers are staffed with Professional Design Consultants who help our homebuyers personalize their home with features and amenities that suit their individual taste, needs and lifestyles. In most of our markets, we also offer our homebuyers the option to consider and make design planning decisions using our online design tool. We believe this tool is very useful for prospective buyers to use during the consideration phase, and is also helpful to buyers as a pre-planning tool prior to their design center visit.

Through M/I Financial and our other subsidiaries, we offer “one-stop” shopping as homebuyers are able to utilize their services to get financing and title services for the purchase of their home. Additionally, from time to time, we also aid the selling process by offering below-market financing options to our customers.

Product Lines, Design and Construction

Our residential communities are generally located in suburban areas that are easily accessible through public and personal transportation. Our communities are designed as neighborhoods that fit existing land characteristics.

On a regional basis, we offer homes ranging in base sales price from approximately $107,000 to $1,000,000, and ranging in square footage from approximately 1,100 to 5,300 square feet. In addition to single-family detached homes, we also offer attached townhomes in most of our markets as well as condominiums in our Columbus, Orlando, and Washington, D.C. markets. By offering a wide range of homes, we are able to attract first-time, move-up, empty-nester and luxury homebuyers. Our "Eco Series" line, discussed below, was designed to appeal to first-time homebuyers because of the emphasis such homebuyers place on affordability and energy cost savings and conservation. It is our goal to sell more than one home to our buyers, and we have frequently been successful in this pursuit.

We devote significant resources to the research, design and development of our homes in order to meet the demands of our buyers as well as the changing market requirements. We spent $2.5 million, $2.4 million and $1.8 million in the years ended December 31, 2011, 2010 and 2009, respectively, for research and development of our homes. Across all of our divisions, we currently offer approximately 500 different floor plans designed to reflect current lifestyles and design trends. In 2009, we unveiled our “Eco Series,” a line of value-oriented homes designed to be attractively priced and to offer greater plan flexibility to our buyers. The “Eco Series” product line has been value-engineered to reduce production costs and construction cycle times, while adhering to our quality standards and using materials and construction techniques that reflect our commitment to more environmentally conscious homebuilding methods.

We now recognize an emerging trend of larger homes in most divisions and we are adjusting certain product lines to meet this demand. We recently introduced several very large floorplans in Florida that range from 4,700 square feet to 5,300 square feet, with average sales prices ranging from $280,000 to $450,000, in response to a demand for more room count, larger spaces and high value. We will continue to look for opportunities to introduce these homes in our other divisions.

Homes generally are constructed according to proprietary designs and to meet the applicable FHA and VA requirements and all local building codes. To allow maximum design flexibility, we limit the use of pre-assembled building components. We attempt to maintain efficient operations by utilizing standardized materials. Our raw materials consist primarily of lumber, concrete and similar construction materials, and while these materials are generally widely available from a variety of sources, we have reduced construction and administrative costs by executing national purchasing contracts with select vendors. We design and supervise the development and building of each of our communities. Our homes are constructed according to standardized prototypes, which are designed and engineered to provide innovative product design while attempting to minimize costs of construction. We generally employ subcontractors for the installation of site improvements and the construction of homes. The construction of each home is supervised by a Personal Construction Supervisor who reports to a Production Manager, both of whom are employees of the Company. Our on-site construction supervisors manage the scheduling and construction process. Subcontractor work is performed pursuant to written agreements. The agreements are generally short-term, with terms from six to twelve months, and specify a fixed price for labor and materials. The agreements are structured to provide price protection for a majority of the higher-cost phases of construction for homes in our backlog. In recent years, we have experienced no significant construction delays due to shortage of materials or labor; however, we cannot predict the extent to which shortages in necessary materials or labor may occur in the future.

We generally begin construction of a home when we have obtained a sales contract and preliminary oral advice from the buyer's lender that financing should be approved. In certain markets, contracts may be accepted contingent upon the sale of an existing home, and construction may be authorized through a certain phase prior to satisfaction of that contingency. The construction of our homes typically takes approximately four to six months from the start of construction to completion of the home, depending on the size and complexity of the particular home being built.

In addition, speculative, or “spec,” homes (i.e., homes started in the absence of an executed contract) are built to facilitate delivery of homes on an immediate-need basis and to provide presentation of new products. We have increased our speculative home production in order to meet the needs of our increasing base of first-time homebuyers. Since the beginning of the downturn, buyers have purchased a greater number of spec homes, for a number of different reasons. For some prospective buyers, selling their existing home has become a less predictable process and, as a result, when they sell their home, they often need to find, buy and move into a new home in 60 days or less. Other buyers simply prefer the certainty provided by being able to fully visualize a home before purchasing it. Because there are so many more spec homes available today, there are a lot more homes to choose from. This was not the case prior to the downturn. Speculative homes can meet the needs of buyers who need to close on their purchase of a home in 60 days or less, while also satisfying their needs to be able to fully visualize the home. Of the total number of homes closed in 2011 and 2010, 64% and 65%, respectively, were speculative homes. At December 31, 2011 we had 573 speculative homes, compared to 561 speculative homes at December 31, 2010.

Backlog

We sell our homes under standard purchase contracts, which generally require a homebuyer deposit at the time of signing. The amount of the deposit required varies among markets and communities. Homebuyers are also generally required to pay additional deposits when they select options or upgrades for their homes. Most of our home purchase contracts stipulate that if a homebuyer cancels a contract with us, we have the right to retain the homebuyer's deposits. However, we generally permit our homebuyers to cancel their obligations and obtain refunds of all or a portion of their deposits in the event mortgage financing cannot be obtained within a period of time, as specified in their contract.

Backlog consists of homes that are under contract but have not yet been delivered. Ending backlog represents the number of homes in backlog from the previous period plus the number of net new contracts (new contracts for homes less cancellations) generated during the current period minus the number of homes delivered during the current period. The backlog at any given time will be affected by cancellations. Due to the seasonality of the homebuilding industry, the number of homes delivered has historically increased from the first to the fourth quarter in any year.

As of December 31, 2011, we had a total of 676 homes, with $180.7 million aggregate sales value, in backlog in various stages of completion, including homes that are under contract but for which construction had not yet begun. As of December 31, 2010, we had a total of 532 homes, with $135.2 million aggregate sales value, in backlog. Homes included in year-end backlog are typically included in homes delivered in the subsequent year.

Warranty

We provide certain warranties in connection with our homes and also have a program to perform multiple inspections on each home that we sell. Immediately prior to closing and again approximately three months after a home is delivered, we inspect each home with the buyer. At the homeowner’s request, we will also provide a one-year drywall inspection. The Company offers a limited warranty program (“Home Builder’s Limited Warranty”) in conjunction with its thirty-year transferable structural limited warranty on homes closed in or after 2007 (which is offered in in all markets except San Antonio, where we offer a 10-year transferable structural limited warranty). The Home Builder’s Limited Warranty covers 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. To increase the value of the thirty-year warranty, the warranty is transferable in the event of the sale of the home. We also pass along to our homebuyers all warranties provided by the manufacturers or suppliers of components installed in each home. Our warranty expense was approximately 1.2%, 1.0% and 0.9% of total housing revenue for the years ended December 31, 2011, 2010 and 2009, respectively.

Land Acquisition and Development

We continuously evaluate land acquisition opportunities as they arise, balancing competing needs for financial strength, liquidity and land inventory for future growth. Before entering into a contract to acquire land, we complete extensive comparative studies and analyses which assist us in evaluating the economic feasibility of such land acquisition. We consider a number of things, some of which include projected rates of return, estimated gross margins, sales prices of the homes to be built, population and employment growth patterns, and demographic trends.

We attempt to acquire land with a minimum cash investment and negotiate takedown options, thereby limiting the financial exposure to the amounts invested in property and predevelopment costs. We believe this policy significantly reduces our risk and generally allows us to obtain necessary development approvals before our acquisition of the land.

In 2011, our percent of land internally developed decreased to 51% from 71% in 2010. We constantly evaluate our alternatives to satisfy our need for lots in the most cost effective manner. We seek to limit our investment in land and lots in the aggregate to the amount reasonably expected to be sold in the next two to three years.

To limit the risk involved in land ownership, we acquire land primarily through the use of contingent purchase agreements. These agreements require the approval of our corporate land committee and frequently condition our obligation to purchase land upon approval of zoning, utilities, soil and subsurface conditions, environmental and wetland conditions, market analysis, development costs, title matters and other property-related criteria. Only after this thorough evaluation and extensive market research has been completed do we make a commitment to purchase undeveloped land.

On a limited basis, we periodically enter into limited liability company arrangements (“Unconsolidated LLCs”) with other entities to develop land. At December 31, 2011, we had interests varying from 33% to 50% in each of our seven Unconsolidated LLCs. Two of the Unconsolidated LLCs are located in Tampa, Florida, and the remaining Unconsolidated LLCs are located in Columbus, Ohio. One of the Unconsolidated LLCs has obtained financing from a third party lender. The Company’s maximum exposure related to its investment in these entities as of December 31, 2011 is the amount invested of $10.4 million. Further details relating to our Unconsolidated LLCs are included in Note 8 to our Consolidated Financial Statements.

During the development of lots, we are required by some municipalities and other governmental authorities to provide completion bonds or letters of credit for sewer, streets and other improvements. At December 31, 2011, $21.3 million of completion bonds and $24.4 million of letters of credit were outstanding for these purposes. The development agreements under which we are required to provide completion bonds or letters of credit are generally not subject to a required completion date and only require that the improvements are in place in phases as homes are built and sold. In locations where development has progressed, the amount of development work remaining to be completed is typically less than the remaining amount of bonds or letters of credit due to timing delays in obtaining release of the bonds or letters of credit.

We seek to balance the economic risk of owning lots and land with the necessity of having lots available for our homes. At December 31, 2011, we had 3,041 developed lots and 625 lots under development in inventory. We also owned raw land expected to be developed into approximately 3,491 lots, which includes our interest in raw land held by Unconsolidated LLCs expected to be developed into 725 lots.

Our ability to continue development activities over the long-term will depend upon, among other things, a suitable economic environment and our continued ability to locate suitable parcels of land, enter into options or agreements to purchase land, obtain governmental approvals for suitable parcels of land, and consummate the acquisition and complete the development of such land.

At December 31, 2011, we had purchase agreements to acquire 1,967 developed lots and raw land to be developed into approximately 1,229 lots for a total of 3,196 lots, with an aggregate current purchase price of approximately $145.8 million. Purchase of these properties is generally contingent upon satisfaction of certain requirements by us and the sellers, such as zoning approval and availability of building permits. Our purchase contracts do not generally contain specific performance obligations, and therefore, we believe that our maximum exposure as of December 31, 2011 related to these agreements is equal to the amount of our outstanding deposits, which totaled $7.2 million, including prepaid acquisition costs of $1.0 million and letters of credit of $3.8 million. Further details relating to our land option agreements are included in Note 14 to our Consolidated Financial Statements.

The following table sets forth our land position in lots (including lots held in Unconsolidated LLCs) at December 31, 2011:

Region	Lots Owned					
	Finished Lots	Lots Under Development	Undeveloped Lots	Total Lots Owned	Lots Under Contract	Total
Midwest	1,334	234	2,335	3,903	795	4,698
Southern	857	141	462	1,460	964	2,424
Mid-Atlantic	850	250	694	1,794	1,437	3,231
Total	3,041	625	3,491	7,157	3,196	10,353

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Financial Services

We sell our homes to customers who generally finance their purchases through mortgages. M/I Financial provides our customers with competitive financing and coordinates and expedites the loan origination transaction through the steps of loan application, loan approval, and closing and title services. M/I Financial provides financing services in all of our housing markets. We believe that our ability to offer financing to customers on competitive terms as a part of the sales process is an important factor in completing sales.

During 2011, we captured 84% of the available mortgage origination business from purchasers of our homes, originating approximately $376.1 million of mortgage loans. The mortgage loans originated by M/I Financial are sold to a third party generally within two to three weeks of originating the loan. During the fourth quarter, the time period for loan fundings lengthened to approximately six weeks. This delay was due to a few major correspondent buyers exiting the market, which resulted in increased volume for the remaining purchasers. In order to alleviate this backlog, we are entering into agreements with additional purchasers of our loans which we believe will aid us in returning to our previous two to three week turnaround.

M/I Financial has been approved by the U.S. Department of Housing and Urban Development, the VA and the USDA to originate mortgages that are insured and/or guaranteed by these entities. In addition, M/I Financial has been approved by the Federal Home Loan Mortgage Corporation ("Freddie Mac") and by the Federal National Mortgage Association ("Fannie Mae") as a seller and servicer of mortgages.

We also provide title services to purchasers of our homes through our wholly-owned subsidiaries, TransOhio Residential Title Agency Ltd. and M/I Title Agency Ltd., and our majority-owned subsidiary, Washington Metro Residential Title Agency, LLC. Through these entities, we serve as a title insurance agent by providing title insurance policies, examination and closing services to purchasers of our homes in all of our housing markets except Raleigh, Charlotte, Chicago, Houston and San Antonio. We assume no underwriting risk associated with the title policies.

Corporate Operations

Our corporate operations and home office are located in Columbus, Ohio, where we perform the following functions at a centralized level:

- Establish strategy, goals and operating policies;
- ensure brand integrity and consistency across all local and regional communications;
- monitor and manage the performance of our operations;
- allocate capital resources;
- provide financing and perform all cash management functions for the Company, as well as maintain our relationship with lenders;
- maintain centralized information and communication systems; and
- maintain centralized financial reporting and internal audit functions.

Competition

In each of our markets, we compete with numerous national, regional, and local homebuilders, some of which have greater financial, marketing, land acquisition, and sales resources than us. Builders of new homes compete not only for homebuyers, but also for desirable properties, financing, raw materials, and skilled subcontractors. In addition, we face competition from foreclosures and the existing home resale market, which experienced an increase in available homes during the downturn due to challenging market conditions and higher foreclosure rates. We compete primarily on the basis of price, location, design, quality, service, and reputation; however, we believe our financial stability, relative to others in our industry, has become an increasingly favorable competitive factor. When our industry recovers, we believe we will see reduced competition from the small and mid-sized private builders in the new home market. Their access to capital already appears to be severely constrained. We expect there will be fewer and more selective lenders serving our industry at that time. We believe that those lenders likely will gravitate to the home building companies that offer them the greatest security, the strongest balance sheets, and the broadest array of potential business opportunities.

Our financial services operations compete with other mortgage lenders, including national, regional, and local mortgage bankers and brokers, banks, savings and loan associations, and other financial institutions, in the origination and sale of mortgage loans. Principal competitive factors include interest rates and other features of mortgage loan products available to the consumer.

Regulation and Environmental Matters

The homebuilding industry is subject to various local, state and federal (including FHA and VA) statutes, ordinances, rules and regulations concerning environmental, zoning, building, design, construction, sales, and similar matters. These regulations affect construction activities, including the types of construction materials that may be used, certain aspects of building design, sales activities, and dealings with consumers. We are required to obtain licenses, permits and approvals from various governmental authorities for development activities. In many areas, we are subject to local regulations which impose restrictive zoning and density requirements in order to limit the number of homes within the boundaries of a particular locality. We strive to reduce the risks of restrictive zoning and density requirements by using contingent land purchase agreements, which state that land must meet various requirements, including zoning, prior to our purchase.

Development of land may be subject to periodic delays or precluded entirely due to building moratoriums. Generally, these moratoriums relate to insufficient water or sewage facilities or inadequate road capacity within specific market areas or communities. The moratoriums we have experienced have not been of long duration and have not had a material effect on our business.

Each of the states in which we operate has a wide variety of environmental protection laws. These laws generally regulate developments which are of substantial size and which are in or near certain specified geographic areas. Furthermore, these laws impose requirements for development approvals which are more stringent than those that land developers would have to meet outside of these geographic areas.

Our mortgage company and title insurance agencies must comply with various federal and state laws and regulations. These include eligibility and other requirements for participation in the programs offered by the FHA, VA, Government National Mortgage Association ("Ginnie Mae"), Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac"). These also include required compliance with consumer lending and other laws and regulations such as disclosure requirements, prohibitions against discrimination and real estate settlement procedures. These laws and regulations subject our operations to examination by the applicable agencies.

Seasonality

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

Employees

At December 31, 2011, we employed 583 people (including part-time employees), of which 456 were employed in homebuilding operations, 67 were employed in financial services and 60 were employed in management and administrative services. No employees are represented by a collective bargaining agreement.

Available Information

We are subject to the reporting requirements of the Exchange Act and file annual, quarterly and current reports, proxy statements and other information with the SEC. These filings are available to the public over the internet on the SEC's website at http://www.sec.gov. Our periodic reports and any other information we file with the SEC may be inspected without charge and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room.

Our website address is http://mihomes.com. We make available, free of charge, on or through our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our website also includes printable versions of our Corporate Governance guidelines, our Code of Business Conduct and Ethics, and Charters for each of our Audit, Compensation, and Nominating and Corporate Governance Committees. The contents of our website are not incorporated by reference in, or otherwise made a part of this Annual Report on Form 10-K.

Item 1A. RISK FACTORS

Our future results of operations and financial condition and the market price for our securities are subject to numerous risks, many of which are driven by factors that cannot be controlled or predicted. The following cautionary discussion of risks, uncertainties and assumptions relevant to our business includes factors we believe could cause our actual results to differ materially from expected and historical results. Other factors beyond those listed below, including factors unknown to us and factors known to us which we have not currently determined to be material, could also adversely affect our business, results of operations, financial condition, prospects and cash flows. Also see "Forward-looking Statements" within Item 7 in Part II of this Annual Report on Form 10-K.

Homebuilding Market and Economic Risks

The homebuilding industry is experiencing a prolonged and severe downturn that may continue for an indefinite period and adversely affect our business and results of operations even more than has occurred to date.

Since 2006, many of our markets and the U.S. homebuilding industry as a whole have experienced a significant and sustained decrease in demand for new homes and an oversupply of new and existing homes available for sale. In many markets, a rapid increase in new and existing home prices in the years leading up to and including 2006 reduced housing affordability relative to consumer incomes and tempered buyer demand. Also since the downturn began, investors and speculators reduced their purchasing activity and instead accelerated their efforts to sell residential property they had previously acquired. These trends, which have been more pronounced in markets that had experienced the greatest levels of price appreciation, have resulted in fewer overall home sales, greater cancellations of home purchase agreements by buyers, higher inventories of unsold homes and the increased use by homebuilders, speculators, investors and others of discounts, incentives, price concessions and other marketing efforts to close home sales in the years following 2006. These negative supply and demand trends have been exacerbated since 2008 by increasing sales of lender-owned homes, a severe downturn in general economic conditions, unemployment, turmoil in credit and consumer lending markets and tighter lending standards.

Reflecting the impact of this difficult environment, we, like many other homebuilders, have experienced to varying degrees since the housing market downturn began, declines in new contracts, decreases in the average selling price of new homes we have sold and delivered and reduced margins relative to years prior to the housing market downturn, and we have generated operating losses. We can provide no assurances that the homebuilding market or our business will improve substantially in the near future. If economic conditions and employment remain weak and mortgage foreclosures, delinquencies and short sales continue rising, there would likely be a corresponding adverse effect on our business and our results of operations, including, but not limited to, our number of homes delivered and the amount of revenues we generate.

Further tightening of residential consumer mortgage lending or mortgage financing requirements or further volatility in credit and consumer lending markets could adversely affect the availability of residential consumer mortgage loans for some potential purchasers of our homes and thereby reduce our sales.

Since 2008, the residential consumer mortgage lending and mortgage finance industries have experienced significant instability due to, among other things, relatively high rates of delinquencies, defaults and foreclosures on residential consumer mortgage loans and a resulting decline in their market value and the market value of securities backed by such loans. The delinquencies, defaults and foreclosures have been driven in part by persistent poor economic and employment conditions, which have negatively affected borrowers' incomes, and by a decline in the values of many existing homes in various markets below the principal balance of the residential consumer mortgage loans secured by such homes. A number of providers, purchasers and insurers of residential consumer mortgage loans and residential consumer mortgage-backed securities have gone out of business or exited the market, and lenders, investors, regulators and others have questioned the oversight and the adequacy of lending standards for several residential consumer mortgage loan programs made available to borrowers in recent years, including programs offered or supported by the FHA, the VA and the federal government sponsored enterprises, Fannie Mae and Freddie Mac. Compared to periods prior to 2008, this has led to reduced investor demand for residential consumer mortgage loans and residential consumer mortgage-backed securities, tightened credit requirements, reduced liquidity and availability of residential consumer mortgage loan products (particularly subprime and nonconforming loans), and increased down payment requirements and credit risk premiums related to home purchases. It has also led to enhanced regulatory and legislative actions, and government programs focused on modifying the principal balances, interest rates and/or payment terms of existing residential consumer mortgage loans and preventing residential consumer mortgage loan foreclosures, which have achieved somewhat mixed results.

The reduction in the availability of residential consumer mortgage loan products and providers and tighter residential consumer mortgage loan qualifications and down payment requirements have made it more difficult for some categories of borrowers to finance the purchase of our homes or the purchase of existing homes from potential move-up buyers who wish to purchase one of our homes. Overall, these factors have slowed any general improvement in the housing market, and they have resulted in volatile home purchase cancellation rates and reduced demand for our homes and for residential consumer mortgage loans originated through our M/I Financial subsidiary. These reductions in demand have had a materially adverse effect on our business and results of operations in 2011 that may continue in 2012.

Potentially exacerbating the foregoing trends, in 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) was signed into law and established several new standards and requirements (including risk retention obligations) relating to the origination, securitizing and servicing of, and consumer disclosures for, residential consumer mortgage loans. In addition, United States and international banking regulators have proposed or enacted higher capital standards and requirements for financial institutions. These standards and requirements, as and when implemented, are expected to further reduce the availability of loans to borrowers and/or increase the costs to borrowers to obtain such loans. Federal regulators and legislators are also discussing steps that may significantly reduce the ability or authority of the FHA, Fannie Mae and Freddie Mac to purchase or insure residential consumer mortgage loans. In the last few years, the FHA, Fannie Mae and Freddie Mac have purchased or insured substantially all new residential consumer mortgage loans originated by lenders and other mortgage banking services providers. Since 2010, investors in residential consumer mortgage-backed securities, as well as the FHA, Fannie Mae and Freddie Mac, have increasingly demanded that lenders and other mortgage banking services providers, brokers and other institutions, or their agents, repurchase the loans underlying the securities based on alleged breaches of underwriting standards or of representations and warranties made in connection with transferring the loans. We expect these "put-back" demands will continue into 2012 and, to the extent successful, could cause lenders and other mortgage banking services providers and brokers to further curtail their residential consumer mortgage loan origination activities due to reduced liquidity. Concerns about the soundness of the residential consumer mortgage lending and mortgage finance industries have also been heightened due to allegedly widespread errors by lenders and other mortgage banking services providers or brokers, or their agents, in the processing of residential consumer mortgage loan foreclosures and sales of foreclosed homes, leading to voluntary or involuntary delays and higher costs to finalize foreclosures and foreclosed home sales, and greater court and regulatory scrutiny. In addition to having a potential negative impact on the origination of new residential consumer mortgage loans, these disruptions in residential consumer mortgage loan foreclosures and lender-owned home sales can make it more difficult for us to accurately assess the supply of and prevailing prices for unsold homes and/or the overall health of particular housing markets.

Many of our homebuyers obtain financing for their home purchases from our M/I Financial subsidiary. If, due to higher costs, reduced liquidity, heightened risk retention obligations and/or new operating restrictions or regulatory reforms related to or arising from compliance with the Dodd-Frank Act, residential consumer mortgage loan put-back demands or internal or external reviews of its residential consumer mortgage loan foreclosure processes, or other factors or business decisions, M/I Financial is limited or unable to make loan products available to our homebuyers, our home sales and our homebuilding and financial services results of operations may be adversely affected. The degree to which this more cautious approach to providing loans to our homebuyers continues into 2012 is unclear, and we can provide no assurance that the trend of tighter residential consumer mortgage lending standards will slow or reverse in the foreseeable future.

Our strategies in responding to the adverse conditions in the homebuilding industry have had limited success, and the continued implementation of these and other strategies may not be successful.

In an effort to generate higher revenues and restore and maintain our homebuilding operations' profitability, beginning in late 2008 and continuing through 2011, we rolled out new, more flexible product designs, including our Eco Series, and we continued to take steps to reduce our selling, general and administrative expenses, and to redeploy our capital into housing markets with perceived higher future growth prospects, such as our entry into the Houston and San Antonio, Texas markets.

We believe these steps helped us increase our new contracts in 2011 compared to 2010, as well as increase the number of homes in backlog, the average sales price of the homes in backlog and the overall sales value of our backlog. However, there can be no assurance that these trends will continue in 2012 or at all, that we will successfully increase our average active community count and inventory base with desirable land assets at a reasonable cost, or that we will achieve or maintain profitability in the near future. In addition, notwithstanding our sales strategies, we have experienced volatility in our new contracts throughout the present housing downturn, including in 2011. We believe that our volatile new contract levels have largely reflected weak homebuyer confidence due to sustained home sales price declines, increased offerings of sales incentives in the marketplace for both new and existing homes, tightened residential consumer mortgage lending standards, and generally poor economic and employment conditions, all of which have prompted homebuyers to forgo or delay home purchases. Additional volatility arose in 2010 with the April 30, 2010 expiration of the federal homebuyer tax credit, which likely pulled demand forward into the first two quarters of 2010 and led to a drop in new contracts and customer traffic in the periods that followed, which led to a decreased beginning backlog level in 2011 compared to the year earlier. The relatively tight consumer mortgage lending environment and the inability of some homebuyers to sell their existing homes have also led to lower demand for new homes and to volatility in home purchase contract cancellations for us and the homebuilding industry. Many of these factors affecting our new contracts, and the related market dynamics that put downward pressure on our average selling prices, are beyond our control. It is uncertain how long and to what degree these factors, and the volatility in new contracts we have experienced, will continue. To the extent that these factors continue, and to the extent that they depress our average selling prices, we expect that they will have a negative effect on our business and our results of operations.

Demand for new homes is sensitive to economic conditions over which we have no control, such as the availability of mortgage financing.

Demand for homes is sensitive to changes in economic conditions such as the level of employment, consumer confidence, consumer income, the availability of financing and interest rate levels. The mortgage lending industry has experienced and may continue to experience significant challenges. As a result of increased default rates, particularly (but not entirely) with regard to sub-prime and other non-conforming loans, many lenders have reduced their willingness to make, and tightened their credit requirements with regard to, residential mortgage loans. Fewer loan products and stricter loan qualification standards have made it more difficult for some borrowers to finance the purchase of our homes. Although our financial services subsidiary offers mortgage loans to potential buyers of most of the homes we build, we may no longer be able to offer financing terms that are attractive to our potential buyers. Unavailability of mortgage financing at acceptable rates reduces demand for the homes we build, including, in some instances, causing potential buyers to cancel contracts they have signed.

Increasing interest rates could cause defaults for homebuyers who financed homes using non-traditional financing products, which could increase the number of homes available for resale.

During the period of high demand in the homebuilding industry prior to 2006, many homebuyers financed their purchases using non-traditional adjustable rate or interest only mortgages or other mortgages, including sub-prime mortgages, that involved, at least during initial years, monthly payments that were significantly lower than those required by conventional fixed rate mortgages. As a result, new homes became more affordable. However, as monthly payments for these homes increased, either as a result of increasing adjustable interest rates or as a result of principal payments coming due, some of these homebuyers defaulted on their payments and had their homes foreclosed, which increased the inventory of homes available for resale. Foreclosure sales and other distress sales resulted in further declines in market prices for homes. In an environment of declining prices, many homebuyers may delay purchases of homes in anticipation of lower prices in the future. In addition, as lenders perceive deterioration in credit quality among homebuyers, lenders have eliminated most of the non-traditional and sub-prime financing products previously available and increased the qualifications needed for mortgages or adjusting their terms to address increased credit risk. Tighter lending standards for mortgage products may have a negative impact on our business by making it more difficult for certain of our homebuyers to obtain financing or resell their existing homes. In general, to the extent mortgage rates increase or lenders make it more difficult for prospective buyers to finance home purchases, it becomes more difficult or costly for customers to purchase our homes, which has an adverse effect on our sales volume.

Our land investment exposes us to significant risks, including potential impairment write-downs, that could negatively impact our profits if the market value of our inventory declines.

We must anticipate demand for new homes several years prior to those homes being sold to homeowners. There are significant risks inherent in controlling or purchasing land, especially as the demand for new homes decreases. There is often a significant lag time between when we acquire land for development and when we sell homes in neighborhoods we have planned, developed and constructed. The value of undeveloped land, building lots and housing inventories can fluctuate significantly as a result of changing market conditions. In addition, inventory carrying costs can be significant, and fluctuations in value can result in reduced profits. Economic conditions could result in the necessity to sell homes or land at a loss, or hold land in inventory longer than planned, which could significantly impact our financial condition, results of operations, cash flows and stock performance. As a result of softened market conditions in all of our markets, since 2006, we have recorded an aggregate loss of $522.2 million for impairment of inventory and investments in Unconsolidated LLCs (including $63.5 million related to discontinued operation), and have written-off $19.2 million relating to abandoned land transactions (including $1.5 million related to discontinued operation). It is possible that the estimated cash flows from these inventory positions may change and could result in a future need to record additional valuation adjustments. Additionally, if conditions in the homebuilding industry worsen in the future, we may be required to evaluate additional inventory for potential impairment, which may result in additional valuation adjustments, which could be significant and could negatively impact our financial results and condition. We cannot make any assurances that the measures we employ to manage inventory risks and costs will be successful.

If we are unable to successfully compete in the highly competitive homebuilding industry, our financial results and growth may suffer.

The homebuilding industry is highly competitive. We compete for sales in each of our markets with national, regional, and local developers and homebuilders, foreclosures sales, existing home resales and, to a lesser extent, condominiums and available rental housing. Some of our competitors have significantly greater financial resources or lower costs than we do. Competition among both small and large residential homebuilders is based on a number of interrelated factors, including location, reputation, amenities, design, quality and price. Competition is expected to continue and may become more intense, and there may be new entrants in the markets in which we currently operate and in markets we may enter in the future. If we are unable to successfully compete, our financial results and growth could suffer.

If economic conditions worsen or the current challenging economic conditions continue for an extended period of time, this could have continued negative consequences on our operations, financial position, and cash flows.

The homebuilding industry is cyclical and is significantly affected by changes in industry conditions, as well as by general and local economic conditions, such as:

- Employment levels and job and personal income growth;
- availability of and pricing of financing for homebuyers;
- short and long-term interest rates;
- overall consumer confidence and the confidence of potential homebuyers in particular;
- demographic trends;
- housing demand from population growth, household formation and other demographic changes, among other factors;
- U.S. and global financial system and credit market stability;
- private party and governmental residential consumer mortgage loan programs, and federal and state regulation of lending and appraisal practices;
- federal and state personal income tax rates and provisions, including provisions for the deduction of residential consumer mortgage loan interest payments and other expenses;

- the supply of and prices for available new or existing homes (including lender-owned homes acquired through foreclosures and short sales) and other housing alternatives, such as apartments and other residential rental property;
- homebuyer interest in our current or new product designs and community locations, and general consumer interest in purchasing a home compared to choosing other housing alternatives; and
- real estate taxes.

Adverse changes in these conditions may affect our business nationally or may be more prevalent or concentrated in particular regions or localities in which we operate. In recent years, unfavorable changes in many of these factors negatively affected all of our served markets, and we expect the widespread nature of the present housing downturn to continue into 2012. Continued weakness in the economy, employment levels and consumer confidence would likely exacerbate the unfavorable trends the housing market has experienced since mid-2006.

The potential difficulties described above can cause demand and prices for our homes to fall or cause us to take longer and incur more costs to build our homes. We may not be able to recover these increased costs by raising prices because of market conditions and because the price of each home we sell is usually set several months before the home is delivered, as our customers typically sign their home purchase contracts before construction begins. The potential difficulties could also lead some homebuyers to cancel or refuse to honor their home purchase contracts altogether. Reflecting the difficult conditions in our served markets and the impact of the termination, expiration or scaling back of homebuyer tax credits and other government programs supportive of home sales, we have experienced volatility in our new contracts and in home purchase contract cancellations in recent years, and we may experience similar or increased volatility in 2012.

Interest rate increases or changes in federal lending programs or regulations could lower demand for our homes.

Nearly all of our customers finance the purchase of their homes. Before the housing downturn began, low interest rates and the increased availability of specialized residential consumer mortgage loan products, including products requiring no or low down payments, and interest-only and adjustable-rate residential consumer mortgage loans, made purchasing a home more affordable for a number of customers and more available to customers with lower credit scores. Increases in interest rates or decreases in the availability of residential consumer mortgage loan financing or of certain residential consumer mortgage loan products or programs may lead to fewer residential consumer mortgage loans being provided, higher down payment requirements or borrower costs, or a combination of the foregoing, and, as a result, reduce demand for our homes and increase our home purchase contract cancellation rates.

As a result of the volatility and uncertainty in the credit markets and in the residential consumer mortgage lending and mortgage finance industries since 2008, the federal government has taken on a significant role in supporting residential consumer mortgage lending through its conservatorship of Fannie Mae and Freddie Mac, both of which purchase or insure residential consumer mortgage loans and residential consumer mortgage-backed securities, and its insurance of residential consumer mortgage loans through the FHA and the VA. FHA-backing of residential consumer mortgage loans has been particularly important to the residential consumer mortgage finance industry and to our business. In 2011, approximately 50% of our homebuyers (compared to approximately 58% in 2010) that chose to finance with our M/I Financial subsidiary purchased a home using an FHA- or VA-backed loan. The availability and affordability of residential consumer mortgage loans, including interest rates for such loans, could be adversely affected by a scaling back or termination of the federal government's mortgage-related programs or policies. In addition, due to growing federal budget deficits, the U.S. Treasury may not be able to continue supporting the residential consumer mortgage-related activities of Fannie Mae, Freddie Mac, the FHA and the VA at present levels.

Because Fannie Mae-, Freddie Mac-, FHA- and VA-backed residential consumer mortgage loan financing is an important factor in marketing and selling many of our homes, any limitations or restrictions in the availability of such government-backed financing could reduce our home sales and adversely affect our results of operations, including the income we earn from M/I Financial, due to lower levels of residential consumer mortgage loan originations.

Tax law changes could make home ownership more expensive or less attractive.

Under current U.S. tax law and policy, significant expenses of owning a home, including residential consumer mortgage loan interest costs and real estate taxes, generally are deductible expenses for the purpose of calculating an individual's federal, and in some cases state, taxable income, subject to various limitations. If the federal government or a state government changes income tax laws, as some policy makers and a presidential commission have proposed, by eliminating or substantially reducing these income tax benefits, the after-tax cost of owning a home could increase substantially. This could adversely impact demand for and/or sales prices of new homes.

Inflation can adversely affect us, particularly in a period of declining home sale prices.

Inflation can have a long-term impact on us because, if the costs of land, materials and labor increase, this would require us to attempt to increase the sale prices of homes in order to maintain satisfactory margins. Although an excess of supply over demand for new homes, such as the environment in which we are currently operating, requires that we reduce prices, rather than increase them, it does not necessarily result in reductions, or prevent increases, in the costs of materials, labor and land development costs. Under those circumstances, the effect of cost increases is to reduce the margins on the homes we sell. Reduced margins in such cases makes it more difficult for us to recover the full cost of previously purchased land.

Our limited geographic diversification could adversely affect us if the homebuilding industry in our markets declines.

We have operations in Ohio, Indiana, Illinois, Maryland, Virginia, North Carolina, Florida and Texas. Our limited geographic diversification could adversely impact us if the homebuilding business in our current markets should continue to decline, since there may not be a balancing opportunity in a stronger market in other geographic regions.

Operational Risks

We may not be successful in integrating acquisitions or implementing our growth strategies.

In April 2011, we acquired the assets of TriStone Homes, a privately-held homebuilder based in San Antonio, Texas. We may in the future consider growth or expansion of our operations in our current markets or in other areas of the country, whether through strategic acquisitions of homebuilding companies or otherwise. The magnitude, timing and nature of any future expansion will depend on a number of factors, including our ability to identify suitable additional markets and/or acquisition candidates, the negotiation of acceptable terms, our financial capabilities and general economic and business conditions. Our expansion into new or existing markets, whether through acquisition or otherwise, could have a material adverse effect on our liquidity and/or profitability, and any future acquisitions could result in the dilution of existing shareholders if we issue our common shares as consideration. Acquisitions also involve numerous risks, including difficulties in the assimilation of the acquired company's operations, the incurrence of unanticipated liabilities or expenses, the risk of impairing inventory and other assets related to the acquisition, the diversion of management's attention and resources from other business concerns, risks associated with entering markets in which we have limited or no direct experience and the potential loss of key employees of the acquired company.

If we are unable to obtain suitable financing, our business may be negatively impacted.

The homebuilding industry is capital intensive because of the length of time from when land or lots are acquired to when the related homes are constructed on those lots and delivered to homebuyers. Our business and earnings depend on our ability to obtain financing to support our homebuilding operations and to provide the resources to carry inventory. We may be required to seek additional capital, whether from sales of equity or debt, or additional bank borrowings, to support our business. Our ability to secure the needed capital on terms that are acceptable to us may be impacted by factors beyond our control. In the event we are unable to obtain suitable financing, our future liquidity may be impacted, which could have a material adverse effect on our financial condition or results of operations and require us to use cash or other sources of capital to fund our business operations.

The mortgage warehousing agreement of our financial services segment will expire in March 2012.

M/I Financial is party to a $60 million mortgage warehousing agreement dated April 18, 2011, which was amended on November 29, 2011 (the “MIF Mortgage Warehousing Agreement”). The amendment increased the borrowing availability under the MIF Mortgage Warehousing Agreement from $50 million to $60 million. M/I Financial uses the MIF Mortgage Warehousing Agreement to finance its lending activities until the loans are delivered to third party buyers. The MIF Mortgage Warehousing Agreement will expire on March 31, 2012. If we are unable to renew or replace the MIF Mortgage Warehousing Agreement when it matures, it could seriously impede the activities of our financial services segment could be seriously impeded.

Reduced numbers of home sales may force us to absorb additional carrying costs.

We incur many costs even before we begin to build homes in a community. These include costs of preparing land and installing roads, sewage and other utilities, as well as taxes and other costs related to ownership of the land on which we plan to build homes. Reducing the rate at which we build homes extends the length of time it takes us to recover these additional costs. Also, we frequently enter into contracts to purchase land and make deposits that may be forfeited if we do not fulfill our purchase obligation within specified periods.

We could be adversely affected by a negative change in our credit rating.

Our ability to access capital on favorable terms is a key factor in growing our business and operations in a profitable manner. As of the date of this report, our credit rating by Moody's is B3 and our credit rating by Standard & Poor's is B-. Downgrades of our credit rating by either of these credit agencies may make it more difficult and costly for us to access external financing.

Errors in estimates and judgments that affect decisions about how we operate and on our reported amounts of assets, liabilities, revenues and expenses could have a material impact on us.

In the ordinary course of business, we must make estimates and judgments that affect decisions about how we operate and the reported amounts of assets, liabilities, revenues and expenses. These estimates include, but are not limited to, those related to: recognition of income and expenses; impairment of assets; estimates of future improvement and amenity costs; estimates of sales levels and sales prices; capitalization of costs to inventory; provisions for litigation, insurance and warranty costs; cost of complying with government regulations; and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. On an ongoing basis, we evaluate and adjust our estimates based upon the information then currently available. Actual results may differ from these estimates, assumptions and conditions.

If our ability to resell mortgages to investors is impaired, we may be required to broker loans.

We sell substantially all of the loans we originate within a short period of time in the secondary mortgage market on a servicing released, non-recourse basis, although we remain liable for certain limited representations and warranties related to loan sales. An entity which has historically purchased a substantial volume of mortgage loans from us has recently exited this line of business. If we are unable to sell to additional viable purchasers in the marketplace, our ability to originate and sell mortgage loans at competitive prices could be limited which would negatively affect our profitability. Additionally, if there is a significant decline in the secondary mortgage market, our ability to sell mortgages could be adversely impacted and we would be required to make arrangements with banks or other financial institutions to fund our buyers' closings. If we became unable to sell loans into the secondary mortgage market or directly to Fannie Mae and Freddie Mac, we would have to modify our origination model, which, among other things, could significantly reduce our ability to sell homes.

Mortgage investors could seek to have us buy back loans or compensate them for losses incurred on mortgages we have sold based on claims that we breached our limited representations or warranties.

M/I Financial originates mortgages, primarily for our homebuilding customers. Substantially all of the mortgage loans originated are sold within a short period of time in the secondary mortgage market on a servicing released, nonrecourse basis, although we remain liable for certain limited representations, such as fraud, and warranties related to loan sales. Accordingly, mortgage investors have in the past and could in the future seek to have us buy back loans or compensate them for losses incurred on mortgages we have sold based on claims that we breached our limited representations or warranties. We believe there continues to be an industry-wide issue with the number of purchaser claims in which purchasers purport to have found inaccuracies related to sellers' representations and warranties in particular loan sale agreements. To date, we have not repurchased any loans and we have established reserves for potential losses, however there can be no assurance that we will not have significant liabilities in respect of such claims in the future, which could exceed our reserves, or that the impact of such claims on our results of operations will not be material.

We compete on several levels with homebuilders that may have greater sales and financial resources than us, which could hurt our future earnings.

We compete not only for homebuyers but also for desirable properties, financing, raw materials and skilled labor, often within larger subdivisions designed, planned and developed by other homebuilders. Our competitors include other local, regional and national homebuilders, some of which have greater sales and financial resources than us. The competitive conditions in the homebuilding industry, together with current market conditions, have resulted in and could continue to result in:

- Difficulty in acquiring suitable land at acceptable prices;
- lower selling prices;
- increased selling incentives;
- lower sales;
- lower profit margins;
- impairments in the value of inventory; and
- delays in construction.

If we are unable to successfully compete within the homebuilding industry, this could lead to increased costs and/or lower profit margins.

We may not be able to benefit from net operating loss carryforwards.

We suffered losses in each fiscal year from 2007 through 2011 for tax (as well as for financial statement) purposes. We were able to carryback 100% of our tax loss in the 2007 fiscal year to recover tax we had paid with regard to a prior year. However, we would not have been able to carryback 100% of our 2008 fiscal year tax loss without legislation enacted in November 2009 that extended the net operating loss ("NOL") carryback period to five years. We were unable to carryback our tax losses for the fiscal years from 2009 through

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2011. We will not receive any tax benefits with regard to tax losses we could not carryback unless we have taxable income in the 20-year NOL carryforward period. In our financial statements, we have fully reserved against all our deferred tax assets due to the possibility that we may not have taxable income that will enable us to benefit from our tax losses for the fiscal years from 2009 through 2011. However, those reserves will be reversed when it becomes more likely than not that we will have sufficient future taxable income to take advantage of the deferred tax assets.

Our net operating loss carryforwards could be substantially limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code.

Based on recent impairments and our current financial performance, we generated net operating loss (“NOL”) carryforwards for the year ending December 31, 2011, and it is possible that we will generate net NOL carryforwards in future years. Under the Internal Revenue Code of 1986, as amended (the “Code”), we may use these NOL carryforwards to offset future earnings and reduce our federal income tax liability. As a result, we believe these NOL carryforwards could be a substantial asset for us.

Section 382 of the Code contains rules that limit the ability of a company that undergoes an “ownership change,” which is generally defined as any change in ownership of more than 50% of its common stock over a three-year period, to utilize its NOL carryforwards and certain built-in losses recognized in years after the ownership change. These rules generally operate by focusing on ownership changes among shareholders owning, directly or indirectly, 5% or more of the company's common stock (including changes involving a shareholder becoming a 5% shareholder) or any change in ownership arising from a new issuance of stock by the company.

In March 2009, we amended our code of regulations to impose certain restrictions on the transfer of our common shares to preserve the tax treatment of our NOLs and built-in losses (the “NOL Protective Amendment”). The transfer restrictions imposed by the NOL Protective Amendment generally restrict (unless otherwise approved by our board of directors) any direct or indirect transfer if the effect would be to: (i) increase the direct or indirect ownership of our shares by any person or group of persons from less than 5% to 5% or more of our common shares; or (ii) increase the percentage of our common shares owned directly or indirectly by a person or group of persons owning or deemed to own 5% or more of our common shares. Although the NOL Protective Amendment is intended to reduce the likelihood of an “ownership change” that could adversely affect us, we cannot provide assurance that the restrictions on transferability in the NOL Protective Amendment will prevent all transfers that could result in such an “ownership change.” There also can be no assurance that the transfer restrictions in the NOL Protective Amendment will be enforceable against all of our shareholders absent a court determination confirming such enforceability. The transfer restrictions may be subject to challenge on legal or equitable grounds.

If we undergo an “ownership change” for purposes of Section 382 of the Code as a result of future transactions involving our common shares, including transactions initiated by the Company, and including transactions involving a shareholder becoming an owner of 5% or more of our common shares and purchases and sales of our common shares by existing 5% shareholders, our ability to use our NOL carryforwards and recognize certain built-in losses could be limited by Section 382 of the Code. Depending on the resulting limitation, a significant portion of our NOL carryforwards could expire before we would be able to use them. Our inability to utilize our NOL carryforwards could have a material adverse affect on our financial condition and results of operations.

Our results of operations, financial condition and cash flows could be adversely affected if pending or future legal claims against us are not resolved in our favor.

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 seven 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 10 to our Consolidated Financial Statements). As a result of these agreements, the Initial Action has been resolved and dismissed, and five of the eight other homeowners named as plaintiffs in omnibus class action complaints have dismissed their claims against the Company. The Company intends to vigorously defend against the claims of the remaining plaintiffs. Given the inherent uncertainties in this litigation, 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. See Notes 10 and 11 to our Consolidated Financial Statements and the risk factor captioned "Homebuilding is subject to warranty and liability claims in the ordinary course of business which may lead to additional reserves or expenses" for more information.

The Company and certain of its subsidiaries have also been named as defendants in other claims, complaints and legal actions which are routine and incidental to our business. While management currently believes that the ultimate resolution of these other matters, individually and in the aggregate, will not have a material adverse effect on our results of operations, financial condition or cash flows, such matters are subject to inherent uncertainties. We have recorded a liability to provide for the anticipated costs, including legal defense costs, associated with the resolution of these other matters. However, it is possible that the costs to resolve these other matters could differ from the recorded estimates and, therefore, have a material adverse effect on our results of operations, financial condition and cash flows for the periods in which the matters are resolved. Similarly, if additional claims are filed against us in the future, the negative outcome of one or more of such matters could have a material adverse effect on our results of operations, financial condition and cash flows.

The terms of our indebtedness may restrict our ability to operate and, if our financial performance further declines, we may be unable to maintain compliance with the covenants in the documents governing our indebtedness.

Our $140 million secured revolving credit facility dated June 9, 2010, as amended (the "Credit Facility") and the indentures governing our outstanding 6.875% Senior Notes due 2012 (the "2012 Senior Notes") and our outstanding 8.625% Senior Notes due 2018 (the "2018 Senior Notes") impose restrictions on our operations and activities. These restrictions, and/or our failure to comply with the terms of our indebtedness, could have a material adverse effect on our results of operations, financial condition and ability to operate our business.

The Credit Facility requires compliance with certain financial covenants, including a minimum consolidated tangible net worth requirement and a maximum permitted leverage ratio. Currently, we believe the most restrictive covenant of the Credit Facility is to maintain a minimum consolidated tangible net worth. Failure to comply with this covenant or any of the other restrictions or covenants of the Credit Facility, whether because of a decline in our operating performance or otherwise, could result in a default under the Credit Facility. If a default occurs, the affected lenders could elect to declare the indebtedness, together with accrued interest and other fees, to be immediately due and payable, which in turn could cause a default under the documents governing our other indebtedness, if there is an amount outstanding and we are not able to repay such amount from other sources. If this happens and we are unable to obtain waivers from the required lenders, the lenders could exercise their rights under such documents, including forcing us into bankruptcy or liquidation. Also, while the aggregate commitment of the Credit Facility is $140 million (with the ability to increase the amount of the credit facility up to $175 million in aggregate, contingent on obtaining additional commitments from lenders), we can only borrow up to the amount we have secured by real estate and/or cash in accordance with the provisions of the Credit Facility. The secured borrowing base in the Credit Facility could preclude us from incurring additional borrowings, which could impair our ability to maintain sufficient working capital. In such a situation, there can be no assurance that we would be able to obtain alternative financing.

The indentures governing our 2012 Senior Notes and our 2018 Senior Notes contain covenants that limit, among other things, our ability to pay dividends on common and preferred shares, or to repurchase any shares. Our ability to make such payments is limited to the amount of our "restricted payments basket," as defined in each of the indentures. As a result of a current deficit in our restricted payments basket under the indenture governing our 2012 Senior Notes and the indenture governing our 2018 Senior Notes, we are currently restricted from paying dividends on our common shares and our 9.75% Series A Preferred Shares, and from repurchasing any common or preferred shares. We will continue to be restricted from paying dividends or repurchasing shares until such time as (1) the restricted payments basket under the indenture governing our 2012 Senior Notes becomes positive or the 2012 Senior Notes are repaid in full, (2) the restricted payments basket under the indenture governing our 2018 Senior Notes becomes positive or our 2018 Senior Notes are repaid in full, and (3) our Board of Directors authorizes us to resume dividend payments or repurchase shares. The indentures governing the 2012 Senior Notes and the 2018 Senior Notes also contain covenants that restrict our ability to, among other things:

•incur additional indebtedness or liens;
•make investments;
•consolidate or merge with or into other companies; or
•liquidate or sell all or substantially all of our assets.

These restrictions may limit our ability to operate our businesses and may prohibit or limit our ability to enhance our operations or take advantage of potential business opportunities as they arise. Failure to comply with these covenants or any of the other restrictions or covenants contained in the indentures governing the 2012 Senior Notes or the 2018 Senior Notes could result in a default under such documents, in which case holders of the 2012 Senior Notes and/or the 2018 Senior Notes may be entitled to cause the sums evidenced by such notes to become due immediately. Under such circumstances, we may be unable to repay those amounts without selling substantial assets, which we may have to do at prices well below the long-term fair values and carrying values of the assets. Our ability to comply with the foregoing restrictions and covenants may be affected by events beyond our control, including prevailing economic, financial and industry conditions.

Our indebtedness could adversely affect our financial condition, and we and our subsidiaries may incur additional indebtedness, which could increase the risks created by our indebtedness.

As of December 31, 2011, we had approximately $297.4 million of indebtedness outstanding and $51.8 million of available borrowings, in each case excluding issuances of letters of credit. In addition, under the terms of the Credit Facility and the documents governing our other indebtedness, we have the ability, subject to applicable debt covenants, to incur additional indebtedness. The incurrence of additional indebtedness could magnify other risks related to us and our business.

Our indebtedness and any future indebtedness we may incur could have a significant adverse effect on our future financial condition. For example:

- a significant portion of our cash flow may be required to pay principal and interest on our indebtedness, which could reduce the funds available for working capital, capital expenditures, acquisitions or other purposes;
- borrowings under the Credit Facility and the MIF Mortgage Warehousing Agreement bear, and borrowings under any new facility could bear, interest at floating rates, which could result in higher interest expense in the event of an increase in interest rates;
- the terms of our indebtedness could limit our ability to borrow additional funds or sell assets to raise funds, if needed, for working capital, capital expenditures, acquisitions or other purposes; and
- our debt level and the various covenants contained in the Credit Facility and the documents governing our other indebtedness could place us at a relative competitive disadvantage as compared to some of our competitors.

The occurrence of any one of these events could have a material adverse effect on our business, financial condition, results of operations or prospects.

In the ordinary course of business, we are required to obtain performance bonds, the unavailability of which could adversely affect our results of operations and/or cash flows.

As is customary in the homebuilding industry, we are often required to provide surety bonds to secure our performance under construction contracts, development agreements and other arrangements. Our ability to obtain surety bonds primarily depends upon our credit rating, capitalization, working capital, past performance, management expertise, and certain external factors, including the overall capacity of the surety market and the underwriting practices of surety bond issuers. The ability to obtain surety bonds also can be impacted by the willingness of insurance companies to issue performance bonds. If we were unable to obtain surety bonds when required, our results of operations and/or cash flows could be adversely impacted.

Changes in accounting principles, interpretations and practices may affect our reported revenues, earnings and results of operations.

Generally accepted accounting principles and the accompanying standards, implementation guidelines, interpretations and practices for certain aspects of our business are complex and may involve subjective judgments, estimates and assumptions, such as revenue recognition, inventory valuations and income taxes. Changes in interpretations could significantly affect our reported revenues, earnings and operating results, and could add significant volatility to those measures without a comparable underlying change in cash flows from operations. The imposition of new accounting standards (e.g., International Financial Reporting Standards) could result in increased expenses as we may be required to modify our current practices and systems in order to comply with such standards.

We can be injured by failures of persons who act on our behalf to comply with applicable regulations and guidelines.

There are instances in which subcontractors or others through whom we do business engage in practices that do not comply with applicable regulations or guidelines. When we learn of practices relating to homes we build or financing we provide that do not comply with applicable laws, rules or regulations, we actively move to stop the non-complying practices as soon as possible. However, regardless of the steps we take after we learn of practices that do not comply with applicable laws, rules or regulations, we can in some instances be subject to fines or other governmental penalties, and our reputation can be injured, due to the practices having taken place.

We experience fluctuations and variability in our operating results on a quarterly basis and, as a result, our historical performance may not be a meaningful indicator of future results.

We historically have experienced, and expect to continue to experience, variability in home sales and results of operations on a quarterly basis. As a result of such variability, our historical performance may not be a meaningful indicator of future results. Factors that contribute to this variability include: (i) the timing of home deliveries and land sales; (ii) delays in construction schedules due to strikes, adverse weather, acts of God, reduced subcontractor availability and governmental restrictions; (iii) our ability to acquire additional land or options