

M I HOMES INC
Form 10-Q
October 25, 2013

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2013

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

Commission File Number 1-12434

M/I HOMES, INC.

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of incorporation or
organization)

31-1210837

(I.R.S. Employer Identification No.)

3 Easton Oval, Suite 500, Columbus, Ohio 43219

(Address of principal executive offices) (Zip Code)

(614) 418-8000

(Registrant's telephone number, including
area code)

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

Yes No

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting
company)

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

Yes No X

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

Common shares, par value \$.01 per share: 24,357,943 shares outstanding as of October 23, 2013.

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

(Dollars in thousands, except par values)	September 30, 2013	December 31, 2012
ASSETS:		
Cash and cash equivalents	\$ 142,475	\$ 145,498
Restricted cash	15,806	8,680
Mortgage loans held for sale	60,388	71,121
Inventory	676,336	556,817
Property and equipment - net	10,346	10,439
Investment in unconsolidated joint ventures	34,088	11,732
Deferred income taxes, net of valuation allowance of \$14.9 million and \$135.7 million at September 30, 2013 and December 31, 2012, respectively	112,682	—
Other assets	30,946	27,013
TOTAL ASSETS	\$ 1,083,067	\$ 831,300
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable	\$ 85,804	\$ 47,690
Customer deposits	14,918	10,239
Other liabilities	62,310	49,972
Community development district ("CDD") obligations	3,419	4,634
Obligation for consolidated inventory not owned	1,576	19,105
Notes payable bank - financial services operations	55,614	67,957
Notes payable - other	8,126	11,105
Convertible senior subordinated notes due 2017	57,500	57,500
Convertible senior subordinated notes due 2018	86,250	—
Senior notes	227,970	227,670
TOTAL LIABILITIES	603,487	495,872
Commitments and contingencies	—	—
SHAREHOLDERS' EQUITY:		
Preferred shares - \$.01 par value; authorized 2,000,000 shares; 2,000 and 4,000 shares issued at September 30, 2013 and December 31, 2012, respectively; 2,000 and 4,000 shares outstanding as of September 30, 2013 and December 31, 2012, respectively	48,163	96,325
Common shares - \$.01 par value; authorized 38,000,000 shares; issued 27,092,723 and 24,631,723 shares at September 30, 2013 and December 31, 2012, respectively	271	246
Additional paid-in capital	235,880	180,289
Retained earnings	249,582	117,048
Treasury shares - at cost - 2,734,780 and 2,944,470 shares at September 30, 2013 and December 31, 2012, respectively	(54,316)	(58,480)
TOTAL SHAREHOLDERS' EQUITY	479,580	335,428
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,083,067	\$ 831,300

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue	\$275,195	\$208,875	\$700,475	\$510,994
Costs and expenses:				
Land and housing	218,150	164,452	556,799	408,893
Impairment of inventory and investment in unconsolidated joint ventures	2,136	1,309	4,237	1,876
General and administrative	18,261	16,016	52,389	42,299
Selling	17,999	14,647	47,383	38,483
Equity in income of unconsolidated joint ventures	(278)	—	(278)	—
Interest	3,449	3,999	12,186	12,066
Loss on early extinguishment of debt	1,726	—	1,726	—
Total costs and expenses	261,443	200,423	674,442	503,617
Income before income taxes	13,752	8,452	26,033	7,377
(Benefit) provision for income taxes	(111,559)	138	(111,129)	(955)
Net income	\$125,311	\$8,314	\$137,162	\$8,332
Preferred dividends	1,219	—	2,438	—
Excess of fair value over book value of preferred shares redeemed	—	—	2,190	—
Net income to common shareholders	\$124,092	\$8,314	\$132,534	\$8,332
Earnings per common share:				
Basic	\$5.09	\$0.43	\$5.61	\$0.44
Diluted	\$4.22	\$0.42	\$4.79	\$0.43
Weighted average shares outstanding:				
Basic	24,358	19,434	23,642	19,014
Diluted	29,745	20,273	28,410	19,238

See Notes to Unaudited Condensed Consolidated Financial Statements.

M/I HOMES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Dollars in thousands)	Nine Months Ended		September 30, 2013		Additional Paid-in Capital	Retained Earnings	Treasury Shares	Total Shareholders' Equity
	Preferred Shares	Common Shares	Preferred Shares	Common Shares				
	Shares Outstanding	Amount	Shares Outstanding	Amount				
Balance at December 31, 2012	4,000	\$96,325	21,687,253	\$ 246	\$180,289	\$117,048	\$(58,480)	\$ 335,428
Net income	—	—	—	—	—	137,162	—	137,162
Fair value over carrying value of preferred shares redeemed	—	2,190	—	—	—	(2,190)	—	—
Dividends to shareholders, \$609.375 per preferred share	—	—	—	—	—	(2,438)	—	(2,438)
Common share issuance	—	—	2,461,000	25	54,592	—	—	54,617
Preferred shares redeemed	(2,000)	(50,352)	—	—	—	—	—	(50,352)
Income tax effect of stock options and executive deferred compensation distributions	—	—	—	—	383	—	—	383
Stock options exercised	—	—	184,832	—	(1,031)	—	3,671	2,640
Stock-based compensation expense	—	—	—	—	1,835	—	—	1,835
Deferral of executive and director compensation	—	—	—	—	305	—	—	305
Executive and director deferred compensation distributions	—	—	24,858	—	(493)	—	493	—
Balance at September 30, 2013	2,000	\$48,163	24,357,943	\$ 271	\$235,880	\$249,582	\$(54,316)	\$ 479,580

See Notes to Unaudited Condensed Consolidated Financial Statements.

M/I HOMES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September	
	30,	2012
(Dollars in thousands)	2013	2012
OPERATING ACTIVITIES:		
Net income	\$137,162	\$8,332
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Inventory valuation adjustments and abandoned land transaction write-offs	4,237	2,132
Equity in income of unconsolidated joint ventures	(278) —
Bargain purchase gain	—	(1,219
Mortgage loan originations	(426,636	) (355,075
Proceeds from the sale of mortgage loans	439,151	354,443
Fair value adjustment of mortgage loans held for sale	(1,782	) (431
Depreciation	3,777	4,940
Amortization of intangibles, debt discount and debt issue costs	2,555	1,822
Loss on early extinguishment of debt	1,726	—
Stock-based compensation expense	1,835	1,398
Deferred income tax expense	9,190	3,721
Deferred tax asset valuation allowances	(120,836	) (3,721
Other	—	50
Change in assets and liabilities:		
Cash held in escrow	148	(37
Inventory	(142,642	) (71,236
Other assets	(2,443	) (4,030
Accounts payable	38,114	23,016
Customer deposits	4,679	6,604
Accrued compensation	1,767	1,667
Other liabilities	9,840	11,303
Net cash used in operating activities	(40,436	) (16,321
INVESTING ACTIVITIES:		
Change in restricted cash	(7,274	) 32,391
Purchase of property and equipment	(1,654	) (858
Return of capital from unconsolidated joint ventures	1,522	—
Acquisition, net of cash acquired	—	(4,707
Investment in unconsolidated joint ventures	(25,496	) (949
Net cash (used in) provided by investing activities	(32,902	) 25,877
FINANCING ACTIVITIES:		
Repayment of senior notes, including transaction costs	—	(41,443
Net proceeds from issuance of senior notes	—	29,700
Proceeds from issuance of convertible senior subordinated notes due 2018	86,250	—
Proceeds from issuance of convertible senior subordinated notes due 2017	—	57,500
Repayments of bank borrowings - net	(12,343) 2,234
	(2,979) 4,968

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(Principal repayments of) proceeds from notes payable-other and CDD bond obligations

Dividends paid on preferred shares	(2,438)	—
Net proceeds from issuance of common shares	54,617		42,085
Redemption of preferred shares	(50,352)	—
Debt issue costs	(5,463	)	(5,843
Proceeds from exercise of stock options	2,640		1,215
Excess tax deficiency from stock-based payment arrangements	383		—
Net cash provided by financing activities	70,315		90,416
Net (decrease) increase in cash and cash equivalents	(3,023	)	99,972
Cash and cash equivalents balance at beginning of period	145,498		59,793
Cash and cash equivalents balance at end of period	\$142,475		\$159,765

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for:

Interest — net of amount capitalized	\$4,977		\$5,442
Income taxes	\$679		\$280

NON-CASH TRANSACTIONS DURING THE PERIOD:

Community development district infrastructure	\$(1,215	)	\$(995
Consolidated inventory not owned	\$(17,529	)	\$3,608
Distribution of single-family lots from unconsolidated joint ventures	\$1,912		\$—

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

NOTE 1. Basis of Presentation

The accompanying Unaudited Condensed Consolidated Financial Statements (the “financial statements”) of M/I Homes, Inc. and its subsidiaries (the “Company”) and notes thereto have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial information. The financial statements include the accounts of M/I Homes, Inc. and its subsidiaries. All intercompany transactions have been eliminated. Results for the interim period are not necessarily indicative of results for a full year. In the opinion of management, the accompanying financial statements reflect all adjustments (all of which are normal and recurring in nature) necessary for a fair presentation of financial results for the interim periods presented. These financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 (the “2012 Form 10-K”).

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during that period. Actual results could differ from these estimates and have a significant impact on the financial condition and results of operations and cash flows. With regard to the Company, estimates and assumptions are inherent in calculations relating to valuation of inventory and investment in unconsolidated joint ventures, property and equipment depreciation, valuation of derivative financial instruments, accounts payable on inventory, accruals for costs to complete inventory, accruals for warranty claims, accruals for self-insured general liability claims, litigation, accruals for health care and workers' compensation, accruals for guaranteed or indemnified loans, stock-based compensation expense, income taxes, and contingencies. Items that could have a significant impact on these estimates and assumptions include the risks and uncertainties listed in “Item 1A. Risk Factors” in Part I of our 2012 Form 10-K, as the same may be updated from time to time in our subsequent filings with the SEC.

Reclassifications

The Company reclassified certain amounts presented in the Supplemental Condensed Consolidating Balance Sheet for the period ended December 31, 2012 and the Supplemental Condensed Consolidating Statement of Cash Flows for the nine months ended September 30, 2012 included in Note 13. The Company believes these reclassifications are immaterial to the supplemental condensed consolidating financial statements which are presented as supplemental information. These reclassifications do not affect the Company's consolidated financial statements for either period.

Impact of New Accounting Standards

In January 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-01: Balance Sheet (Topic 210) - Disclosures about Offsetting Assets and Liabilities (“ASU 2013-01”). ASU 2013-01 amended ASU 2011-11 and will enhance disclosures required by the United States Generally Accepted Accounting Principles (“U.S. GAAP”) by requiring additional information about financial and derivative instruments that are either (1) offset in accordance with Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with Section 210-20-45 or Section 815-10-45. We are required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and for interim periods within those annual periods. The Company adopted this standard on January 1, 2013, and the adoption did not have a material impact on its Unaudited Condensed Consolidated Financial Statements.

In April 2013, the FASB issued ASU No. 2013-04: Liabilities (“ASU 2013-04”), which provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. ASU 2013-04 is effective for us beginning January 1, 2014. The Company does not anticipate the adoption of this guidance will have a material impact on its Unaudited Condensed Consolidated Financial Statements or disclosures.

In July 2013, the FASB issued ASU No. 2013-11: Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (“ASU 2013-11”). The amendments in ASU 2013-11 are intended to end inconsistent practices regarding the presentation of unrecognized tax benefits on the balance sheet. An entity will be required to present an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss (“NOL”) or tax credit carryforward whenever the NOL or tax credit carryforward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. An entity is required to apply the amendments prospectively for annual reporting periods

beginning after December 15, 2013, and for interim periods within those annual periods. Early adoption and retrospective application are permitted. The Company does not anticipate the adoption of this guidance will have a material impact on its Unaudited Condensed Consolidated Financial Statements or disclosures.

NOTE 2. Fair Value Measurements

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

Assets Measured on a Recurring Basis

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

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

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

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

Some IRLCs are committed to a specific third party investor through the use of best-efforts whole loan delivery commitments matching the exact terms of the IRLC loan. Uncommitted IRLCs are considered derivative instruments and are fair value adjusted, with the resulting gain or loss recorded in current earnings.

Forward Sales of Mortgage-Backed Securities. Forward sales of mortgage-backed securities (“FMBSs”) are used to protect uncommitted IRLC loans against the risk of changes in interest rates between the lock date and the funding date. FMBSs related to uncommitted IRLCs are classified and accounted for as non-designated derivative instruments and are recorded at fair value, with gains and losses recorded in current earnings.

Mortgage Loans Held for Sale. Mortgage loans held for sale consists primarily of single-family residential loans collateralized by the underlying property. Generally, all of the mortgage loans and related servicing rights are sold to third-party investors shortly after origination. During the intervening period between when a loan is closed and when it is sold to an investor, the interest rate risk is covered through the use of a best-efforts contract or by FMBSs. The FMBSs are classified and accounted for as non-designated derivative instruments, with gains and losses recorded in current earnings.

The table below shows the notional amounts of our financial instruments at September 30, 2013 and December 31, 2012:

Description of financial instrument (in thousands)	September 30, 2013	December 31, 2012
Best efforts contracts and related committed IRLCs	\$4,417	\$1,184
Uncommitted IRLCs	79,594	25,854
FMBSs related to uncommitted IRLCs	80,000	26,000
Best efforts contracts and related mortgage loans held for sale	3,025	25,441
FMBSs related to mortgage loans held for sale	55,000	44,000
Mortgage loans held for sale covered by FMBSs	54,720	44,524

The table below shows the level and measurement of assets and liabilities measured on a recurring basis at September 30, 2013 and December 31, 2012:

Description of Financial Instrument (in thousands)	Fair Value Measurements September 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
Mortgage loans held for sale	\$60,388	\$—	\$60,388	\$—
Forward sales of mortgage-backed securities	(1,971)	—	(1,971)	—
Interest rate lock commitments	942	—	942	—
Best-efforts contracts	(179)	—	(179)	—
Total	\$59,180	\$—	\$59,180	\$—
Description of Financial Instrument (in thousands)	Fair Value Measurements December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
Mortgage loans held for sale	\$71,121	\$—	\$71,121	\$—
Forward sales of mortgage-backed securities	253	—	253	—
Interest rate lock commitments	1	—	1	—
Best-efforts contracts	(3)	—	(3)	—
Total	\$71,372	\$—	\$71,372	\$—

The following table sets forth the amount of (loss) gain recognized, within our revenue in the Unaudited Condensed Consolidated Statements of Operations, on assets and liabilities measured on a recurring basis for the three and nine months ended September 30, 2013 and 2012:

Description (in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Mortgage loans held for sale	\$3,365	\$328	\$1,782	\$431
Forward sales of mortgage-backed securities	(5,262)	(838)	(2,224)	(925)
Interest rate lock commitments	1,677	341	941	328
Best-efforts contracts	(193)	(84)	(176)	(77)
Total (loss) gain recognized	\$(413)	\$(253)	\$323	\$(243)

The following tables set forth the fair value of the Company's derivative instruments and their location within the Unaudited Condensed Consolidated Balance Sheets for the periods indicated (except for mortgage loans held for sale which is disclosed as a separate line item):

Description of Derivatives	Asset Derivatives September 30, 2013		Liability Derivatives September 30, 2013	
	Balance Sheet Location	Fair Value (in thousands)	Balance Sheet Location	Fair Value (in thousands)
Forward sales of mortgage-backed securities	Other assets	\$—	Other liabilities	\$1,971
Interest rate lock commitments	Other assets	942	Other liabilities	—
Best-efforts contracts	Other assets	—	Other liabilities	179
Total fair value measurements		\$942		\$2,150
Description of Derivatives	Asset Derivatives December 31, 2012		Liability Derivatives December 31, 2012	
	Balance Sheet Location	Fair Value (in thousands)	Balance Sheet Location	Fair Value (in thousands)
Forward sales of mortgage-backed securities	Other assets	\$253	Other liabilities	\$—
Interest rate lock commitments	Other assets	1	Other liabilities	—
Best-efforts contracts	Other assets	—	Other liabilities	3
Total fair value measurements		\$254		\$3

Assets Measured on a Non-Recurring Basis

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

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

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

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

base sales price or an increase in home sales incentives may result in a corresponding increase in sales absorption pace or a reduction in base house costs. Changes in our key assumptions, including estimated average selling price, construction and development costs, absorption pace, selling strategies, or discount rates, could materially impact future cash flow and fair value estimates.

As of September 30, 2013, our projections generally assume a gradual improvement in market conditions over time. If communities are not recoverable based on estimated future undiscounted cash flows, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. The fair value of a community is estimated by discounting management's cash flow projections using an appropriate risk-adjusted interest rate. As of September 30, 2013, we utilized discount rates ranging from 13% to 16% in our valuations. The discount rate used in determining each asset's estimated fair value reflects the inherent risks associated with the related estimated cash flow stream, as well as current risk-free rates available in the market and estimated market risk premiums. For example, construction in progress inventory, which is closer to completion, will generally require a lower discount rate than land under development in communities consisting of multiple phases spanning several years of development.

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

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

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

prices in its cash flow models, assuming no increase in weighted average sales price in 2013, a 4% increase in 2014 and 2015, and a 2% increase in 2016 and beyond.

In order to arrive at the Company's assumed costs to build and deliver homes, the Company generally assumes a cost structure reflecting contracts currently in place with its vendors and subcontractors, adjusted for any anticipated cost reduction initiatives or increases in cost structure. With respect to overhead included in the cash flow models, the Company uses forecasted rates included in the Company's annual budget adjusted for actual experience that is materially different than budgeted rates. The Company anticipates no increase in assumed weighted average costs in 2013, a 4% increase in 2014 and 2015, and a 2% increase in 2016 and beyond.

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

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

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

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

Our quarterly assessments reflect management's best estimates. Due to the inherent uncertainties in management's estimates and uncertainties related to our operations and our industry as a whole, we are unable to determine at this time if and to what extent continuing future impairments will occur. Additionally, due to the volume of possible outcomes that can be generated from changes in the various model inputs for each community, we do not believe it is possible to create a sensitivity analysis that can provide meaningful information for the users of our financial statements.

Variable Interest Entities. In order to minimize our investment and risk of land exposure in a single location, we have periodically partnered with other land developers or homebuilders to share in the land investment and development of a property through joint ownership and development agreements, joint ventures, and other similar arrangements. During the nine month period ended September 30, 2013, we increased our total investment in such joint venture arrangements from December 31, 2012 by \$22.4 million primarily due to a joint investment with another builder in a land development in our Southern region.

For joint venture arrangements where a special purpose entity is established to own the property, we generally enter into limited liability company or similar arrangements ("LLCs") with the other partners. The Company's ownership in these LLCs as of September 30, 2013 ranged from 25% to 61%. These entities typically engage in land development activities for the purpose of distributing or selling developed lots to the Company and its partners in the LLC. With respect to our investments in these LLCs, we are required, under ASC 810-10, Consolidation ("ASC 810-10"), to evaluate whether or not such entities should be consolidated into our financial statements. We initially perform these evaluations when each new entity is created and upon any events that require reconsideration of the entity. In order to determine if we should consolidate an LLC, we determine (1) if the LLC is a Variable Interest Entity ("VIE") and (2) if we are the primary beneficiary of the entity. To determine whether we are the primary beneficiary of an entity, we consider whether we have the ability to control the activities of the VIE that most significantly impact its economic performance. This analysis considers, among other things, whether we have the ability to determine the budget and

scope of land development work, if any; the ability to control financing decisions for the VIE; the ability to acquire additional land into the VIE or dispose of land in the VIE not under contract with M/I Homes; and the ability to change or amend the existing option contract with the VIE. If it is determined we are not able to control such activities, we are not considered the primary beneficiary of the VIE.

As of September 30, 2013, we have determined that one of the LLCs in which we have an interest meets the requirements of a VIE due to a lack of equity at risk in the entity. However, we have determined that we do not have substantive control over any of these entities, including our VIE, as we do not have the ability to control the activities that most significantly impact their economic performance. As a result, none of these LLCs are required to be consolidated into our financial statements and the entities are instead recorded in Investment in Unconsolidated Joint Ventures on our Unaudited Condensed Consolidated Balance Sheets.

We enter into option or purchase agreements to acquire land or lots, for which we generally pay non-refundable deposits. We also analyze these agreements under ASC 810-10 to determine whether we are the primary beneficiary of the VIE, if applicable, using

an analysis similar to that described above. If we are deemed to be the primary beneficiary of the VIE, we will consolidate the VIE in our consolidated financial statements. In cases where we are the primary beneficiary, even though we do not have title to such land, we are required to consolidate these purchase/option agreements and reflect such assets and liabilities as Consolidated Inventory not Owned in our Unaudited Condensed Consolidated Balance Sheets.

Investment In Unconsolidated Joint Ventures. We use the equity method of accounting for investments in unconsolidated joint ventures over which we exercise significant influence but do not have a controlling interest. Under the equity method, our share of the unconsolidated joint ventures' earnings or loss, if any, is included in our statement of operations. We evaluate our investments in unconsolidated joint ventures for impairment at least quarterly as described below.

If the fair value of the investment is less than the investment's carrying value and the Company has determined that the decline in value is other than temporary, the Company would write down the value of the investment to fair value. The determination of whether an investment's fair value is less than the carrying value requires management to make certain assumptions regarding the amount and timing of future contributions to the unconsolidated joint venture, the timing of distribution of lots to the Company from the unconsolidated joint venture, the projected fair value of the lots at the time of distribution to the Company, and the estimated proceeds from, and timing of, the sale of land or lots to third parties. In determining the fair value of investments in unconsolidated joint ventures, the Company evaluates the projected cash flows associated with each unconsolidated joint venture. As of September 30, 2013, the Company used a discount rate of 16% in determining the fair value of investments in unconsolidated joint ventures. In addition to the assumptions management must make to determine if the investment's fair value is less than the carrying value, management must also use judgment in determining whether the impairment is other than temporary. The factors management considers are: (1) the length of time and the extent to which the market value has been less than cost; (2) the financial condition and near-term prospects of the company; and (3) the intent and ability of the Company to retain its investment in the unconsolidated joint venture for a period of time sufficient to allow for any anticipated recovery in market value. We believe that the Company's maximum exposure related to its investment in these unconsolidated joint ventures as of September 30, 2013 is the amount invested of \$34.1 million (in addition to a \$2.5 million note due to the Company from one of the unconsolidated joint ventures), although we expect to invest further amounts in these unconsolidated joint ventures as development of the properties progresses. Included in the Company's investment in unconsolidated joint ventures at September 30, 2013 and December 31, 2012 were \$0.7 million and \$0.8 million of capitalized interest and other costs, respectively.

Because of the high degree of judgment involved in developing these assumptions, it is possible that the Company may determine the investment is not impaired in the current period; however, due to the passage of time, change in market conditions, and/or changes in management's intentions with respect to the inventory, a change in assumptions could result and impairment could occur.

The table below summarizes the Company's assets measured on a non-recurring basis as of and for the three and nine months ended September 30, 2013 and 2012:

Description (in thousands)	Hierarchy	Three Months Ended September 30,		Nine Months Ended September 30,	
		2013	2012 (2)	2013	2012 (2)
Adjusted basis of inventory (1)	Level 3	\$1,975	\$2,108	\$3,876	\$2,350
Impairments		2,136	1,309	4,237	1,876
Initial basis of inventory (1)		\$4,111	\$3,417	\$8,113	\$4,226

The fair values in the table above represent only assets whose carrying values were adjusted in the respective period.

- (2) The carrying values for these assets may have subsequently increased or decreased from the fair value reported due to activities that have occurred since the measurement date.

Financial Instruments

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

The following table presents the carrying amounts and fair values of the Company's financial instruments at September 30, 2013 and December 31, 2012. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price).

(In thousands)	September 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash, cash equivalents and restricted cash	\$ 158,281	\$ 158,281	\$ 154,178	\$ 154,178
Mortgage loans held for sale	60,388	60,388	71,121	71,121
Split dollar life insurance policies	176	174	710	678
Notes receivable	3,312	3,180	8,787	7,460
Commitments to extend real estate loans	942	942	1	1
Forward sales of mortgage-backed securities	—	—	253	253
Liabilities:				
Notes payable - banks	55,614	55,614	67,957	67,957
Notes payable - other	8,126	8,137	11,105	11,148
Convertible senior subordinated notes due 2017	57,500	65,406	57,500	74,175
Convertible senior subordinated notes due 2018	86,250	87,328	—	—
Senior notes due 2018	227,970	246,675	227,670	250,700
Best-efforts contracts for committed IRLCs and mortgage loans held for sale	179	179	3	3
Forward sales of mortgage-backed securities	1,971	1,971	—	—
Off-Balance Sheet Financial Instruments:				
Letters of credit	—	659	—	493

The following methods and assumptions were used by the Company in estimating its fair value disclosures of financial instruments at September 30, 2013 and December 31, 2012:

Cash, Cash Equivalents and Restricted Cash. The carrying amounts of these items approximate fair value because they are short-term by nature.

Mortgage Loans Held for Sale, Forward Sales of Mortgage-Backed Securities, Commitments to Extend Real Estate Loans, Best-Efforts Contracts for Committed IRLCs and Mortgage Loans Held for Sale, 2017 Convertible Senior Subordinated Notes, 2018 Convertible Senior Subordinated Notes and 2018 Senior Notes. The fair value of these financial instruments was determined based upon market quotes at September 30, 2013 and December 31, 2012. The market quotes used were quoted prices for similar assets or liabilities along with inputs taken from observable market data by correlation. The inputs were adjusted to account for the condition of the asset or liability.

Split Dollar Life Insurance Policies and Notes Receivable. The estimated fair value was determined by calculating the present value of the amounts based on the estimated timing of receipts using discount rates that incorporate management's estimate of risk associated with the corresponding note receivable. During the third quarter of 2013, the balance of our split dollar life insurance policies decreased by \$0.5 million due to the surrender of a policy (and termination of the related split-dollar agreement) by an officer.

Notes Payable - Banks. The interest rate available to the Company in the third quarter of 2013 fluctuated with the Alternate Base Rate or the Eurodollar Rate (for the Company's new \$200 million unsecured revolving credit facility (the "Credit Facility")) or LIBOR (for M/I Financial Corp.'s \$100 million secured mortgage warehousing agreement as amended and restated on March 29, 2013 (the "MIF Mortgage Warehousing Agreement")) and for M/I Financial's \$15

million mortgage repurchase agreement dated November 13, 2012, as amended (the "MIF Mortgage Repurchase Facility")), and thus their carrying value is a reasonable estimate of fair value. During the second quarter of 2013, M/I Financial exercised the accordion feature under the MIF Mortgage Warehousing Agreement to increase the maximum borrowing availability amount thereunder by \$20.0 million to \$100.0 million.

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

Letters of Credit. Letters of credit of \$29.4 million and \$25.7 million represent potential commitments at September 30, 2013 and December 31, 2012, respectively. The letters of credit generally expire within one or two years. The estimated fair value of letters of credit was determined using fees currently charged for similar agreements.

NOTE 3. Inventory

A summary of the Company's inventory as of September 30, 2013 and December 31, 2012 is as follows:

(In thousands)	September 30, 2013	December 31, 2012
Single-family lots, land and land development costs	\$283,455	\$257,397
Land held for sale	6,899	8,442
Homes under construction	331,969	221,432
Model homes and furnishings - at cost (less accumulated depreciation: September 30, 2013 - \$5,242; December 31, 2012 - \$4,883)	35,664	37,080
Community development district infrastructure	3,418	4,634
Land purchase deposits	13,355	8,727
Consolidated inventory not owned	1,576	19,105
Total inventory	\$676,336	\$556,817

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

Homes under construction include homes that are in various stages of construction. As of September 30, 2013 and December 31, 2012, we had 822 homes (with a carrying value of \$110.0 million) and 649 homes (with a carrying value of \$89.8 million), respectively, included in homes under construction that were not subject to a sales contract.

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

The Company assesses inventory for recoverability on a quarterly basis. Refer to Note 2 of our Unaudited Condensed Consolidated Financial Statements for additional details relating to our procedures for evaluating our inventories for impairment.

Land purchase deposits include both refundable and non-refundable amounts paid to third party sellers relating to the purchase of land. On an ongoing basis, the Company evaluates the land option agreements relating to the land purchase deposits. In the period during which the Company makes the decision not to proceed with the purchase of land under an agreement, the Company writes off any deposits and accumulated pre-acquisition costs relating to such agreement.

NOTE 4. Valuation Adjustments and Write-offs

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

A summary of the Company's valuation adjustments and write-offs for the three and nine months ended September 30, 2013 and 2012 is as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2013	2012	September 30, 2013	2012
Impairment of operating communities:				
Midwest	\$481	\$—	\$481	\$10
Southern	—	—	—	—
Mid-Atlantic	—	—	—	—
Total impairment of operating communities (a)	\$481	\$—	\$481	\$10
Impairment of future communities:				
Midwest	\$1,655	\$1,309	\$2,465	\$1,771
Southern	—	—	—	—
Mid-Atlantic	—	—	—	—
Total impairment of future communities (a)	\$1,655	\$1,309	\$2,465	\$1,771
Impairment of land held for sale:				
Midwest	\$—	\$—	\$1,291	\$95
Southern	—	—	—	—
Mid-Atlantic	—	—	—	—
Total impairment of land held for sale (a)	\$—	\$—	\$1,291	\$95
Option deposits and pre-acquisition costs write-offs:				
Midwest	\$—	\$—	\$—	\$36
Southern	—	—	—	110
Mid-Atlantic	—	—	—	110
Total option deposits and pre-acquisition costs write-offs (b)	\$—	\$—	\$—	\$256
Impairment of investments in unconsolidated joint ventures:				
Midwest	\$—	\$—	\$—	\$—
Southern	—	—	—	—
Mid-Atlantic	—	—	—	—
Total impairment of investments in unconsolidated joint ventures (a)	\$—	\$—	\$—	\$—
Total impairments and write-offs of option deposits and pre-acquisition costs	\$2,136	\$1,309	\$4,237	\$2,132

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

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

NOTE 5. Capitalized Interest

The Company capitalizes interest during land development and home construction. Capitalized interest is charged to cost of sales as the related inventory is delivered to a third party. The summary of capitalized interest for the three and nine months ended September 30, 2013 and 2012 is as follows:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Capitalized interest, beginning of period	\$ 14,260	\$ 17,967	\$ 15,376	\$ 18,869
Interest capitalized to inventory	3,940	2,574	10,045	7,128
Capitalized interest charged to cost of sales	(4,074	) (3,755	) (11,295	) (9,211
Capitalized interest, end of period	\$ 14,126	\$ 16,786	\$ 14,126	\$ 16,786
Interest incurred	\$ 7,389	\$ 6,573	\$ 22,231	\$ 19,194

NOTE 6. Guarantees and Indemnifications

Warranty

Warranty reserves are recorded for warranties under our Home Builder's Limited Warranty ("HBLW") and our 10-year (Texas markets only) and 30-year (all markets excluding Texas) transferable structural warranty in Other liabilities on the Company's Unaudited Condensed Consolidated Balance Sheets.

The warranty reserves for the HBLW are established as a percentage of average sales price and adjusted based on historical payment patterns determined, generally, by geographic area and recent trends. Factors that are given consideration in determining the HBLW reserves include: (1) the historical range of amounts paid per average sales price on a home; (2) type and mix of amenity packages added to the home; (3) any warranty expenditures not considered to be normal and recurring; (4) timing of payments; (5) improvements in quality of construction expected to impact future warranty expenditures; and (6) conditions that may affect certain projects and require a different percentage of average sales price for those specific projects. Changes in estimates for warranties occur due to changes in the historical payment experience and differences between the actual payment pattern experienced during the period and the historical payment pattern used in our evaluation of the warranty reserve balance at the end of each quarter. Actual future warranty costs could differ from our current estimated amount.

Our warranty reserves for our transferable structural warranty programs are established on a per-unit basis. While the structural warranty reserve is recorded as each house closes, the sufficiency of the structural warranty per unit charge and total reserve is re-evaluated on an annual basis, with the assistance of an actuary, using our own historical data and trends, industry-wide historical data and trends, and other project specific factors. The reserves are also evaluated quarterly and adjusted if we encounter activity that is inconsistent with the historical experience used in the annual analysis. These reserves are subject to variability due to uncertainties regarding structural defect claims for products we build, the markets in which we build, claim settlement history, insurance and legal interpretations, among other factors.

While we believe that our warranty reserves are sufficient to cover our projected costs, there can be no assurances that historical data and trends will accurately predict our actual warranty costs.

A summary of warranty activity for the three and nine months ended September 30, 2013 and 2012 is as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Warranty reserves, beginning of period	\$10,388	\$8,733	\$10,438	\$9,025
Warranty expense on homes delivered during the period	1,999	1,646	5,004	4,021
Changes in estimates for pre-existing warranties	321	141	422	231
Settlements made during the period	(1,952)	(1,524)	(5,108)	(4,281)
Warranty reserves, end of period	\$10,756	\$8,996	\$10,756	\$8,996

Guarantees

In the ordinary course of business, M/I Financial Corp. ("M/I Financial"), a 100%-owned subsidiary of M/I Homes, Inc., enters into agreements that guarantee certain purchasers of its mortgage loans that M/I Financial will repurchase a loan if certain conditions occur, primarily if the mortgagor does not meet those conditions of the loan within the first six months after the sale of the loan. Loans totaling approximately \$6.1 million and \$3.1 million were covered under the above guarantees as of September 30, 2013 and December 31, 2012, respectively. A portion of the revenue paid to M/I Financial for providing the guarantees on the above loans was deferred at September 30, 2013, and will be

recognized in income as M/I Financial is released from its obligation under the guarantees. M/I Financial did not repurchase any loans under the above agreements during the nine months ended September 30, 2013. The risk associated with the guarantees above is offset by the value of the underlying assets.

M/I Financial has received inquiries concerning underwriting matters from purchasers of its loans regarding certain loans totaling approximately \$8.4 million and \$7.9 million at September 30, 2013 and December 31, 2012, respectively. The risk associated with the guarantees above is offset by the value of the underlying assets.

M/I Financial has also guaranteed the collectability of certain loans to third party insurers (U.S. Department of Housing and Urban Development and U.S. Veterans Administration) of those loans for periods ranging from five to thirty years. As of both September 30, 2013 and December 31, 2012, the total of all loans indemnified to third party insurers relating to the above agreements was \$1.0 million. The maximum potential amount of future payments is equal to the outstanding loan value less the value of the underlying asset plus administrative costs incurred related to foreclosure on the loans, should this event occur.

The Company has recorded a liability relating to the guarantees described above totaling \$2.9 million and \$2.6 million at September 30, 2013 and December 31, 2012, respectively, which is management's best estimate of the Company's liability.

At September 30, 2013, the Company had outstanding \$230.0 million aggregate principal amount of 8.625% Senior Notes due 2018 (the "2018 Senior Notes"), \$57.5 million aggregate principal amount of 3.25% Convertible Senior Subordinated Notes due 2017 (the "2017 Convertible Senior Subordinated Notes") and \$86.3 million aggregate principal amount of 3.0% Convertible Senior Subordinated Notes due 2018 (the "2018 Convertible Senior Subordinated Notes"). The Company's obligations under the 2018 Senior Notes and the Credit Facility are guaranteed jointly and severally on a senior unsecured basis by all of the Company's subsidiaries, with the exception of subsidiaries that are primarily engaged in the business of mortgage financing, title insurance or similar financial businesses relating to the homebuilding and home sales business, certain subsidiaries that are not 100%-owned by the Company or another subsidiary, and other subsidiaries designated by the Company as Unrestricted Subsidiaries (as defined in Note 13), subject to limitations on the aggregate amount invested in such Unrestricted Subsidiaries in accordance with the terms of the Credit Facility and the Indenture for the 2018 Senior Notes. The Company's obligations under the 2017 Convertible Senior Subordinated Notes and the 2018 Convertible Senior Subordinated Notes are guaranteed jointly and severally on a senior subordinated unsecured basis by the same subsidiaries of the Company that are guarantors for the 2018 Senior Notes and the Credit Facility (the "Guarantor Subsidiaries"). Refer to Note 9 for a description of the guarantees of the Credit Facility.

NOTE 7. Commitments and Contingencies

At September 30, 2013, the Company had outstanding approximately \$91.8 million of completion bonds and standby letters of credit, some of which were issued to various local governmental entities that expire at various times through October 2018. Included in this total are: (1) \$59.2 million of performance and maintenance bonds and \$13.6 million of performance letters of credit that serve as completion bonds for land development work in progress; (2) \$15.8 million of financial letters of credit, of which \$8.4 million represent deposits on land and lot purchase agreements; and (3) \$3.2 million of financial bonds.

At September 30, 2013, the Company also had options and contingent purchase agreements to acquire land and developed lots with an aggregate purchase price of approximately \$340.1 million. Purchase of properties under these agreements is contingent upon satisfaction of certain requirements by the Company and the sellers.

NOTE 8. Legal Liabilities

The Company and certain of its subsidiaries have been named as defendants in certain claims, complaints and legal actions which are incidental to our business. Certain of the liabilities resulting from these matters are covered by insurance. While management currently believes that the ultimate resolution of these matters, individually and in the aggregate, will not have a material effect on the Company's financial position, results of operations and cash flows, such matters are subject to inherent uncertainties. The Company has recorded a liability to provide for the anticipated costs, including legal defense costs, associated with the resolution of these matters. However, it is possible that the costs to resolve these matters could differ from the recorded estimates and, therefore, have a material effect on the Company's net income for the periods in which the matters are resolved. At both September 30, 2013 and December 31, 2012, we had \$0.3 million reserved for legal expenses.

NOTE 9. Debt

Notes Payable - Homebuilding

On July 18, 2013, the Company entered into the Credit Facility, which has a maximum borrowing availability of \$200 million. The Credit Facility matures on July 18, 2016. The Credit Facility contains an uncommitted \$25 million accordion feature under which its aggregate principal amount can be increased to up to \$225 million, subject to certain conditions, including obtaining additional commitments from existing or new lenders, as well as a sub-limit of \$100 million for the issuance of letters of credit. Interest on amounts borrowed under the Credit Facility is payable at a rate based on either the Alternate Base Rate plus 2.25% or at the Eurodollar Rate plus 3.25%. Borrowings under the Credit Facility are unsecured and availability is subject to, among other things, a borrowing base. The Credit Facility also contains certain financial covenants, including a minimum tangible net worth requirement and a maximum leverage covenant that prohibits the leverage ratio (as defined therein) from exceeding 60%. In addition, we are restricted from allowing the amount of unsold owned land to exceed exceed 125% of the sum of tangible net worth and subordinated debt, we are prohibited from making investments in Unrestricted Subsidiaries and Joint Ventures in excess of 30% of tangible net worth, and we are required to maintain either (i) an interest coverage ratio (as defined therein) of at least 1.50 to 1.00 or (ii) liquidity (as defined therein) of an amount not less than our consolidated interest incurred during the trailing 12 months. At September 30, 2013, the Company was in compliance with all financial covenants of the Credit Facility.

The Credit Facility replaced the \$140 million secured revolving credit facility (the “Prior Credit Facility”) that was scheduled to mature on December 31, 2014. The guarantors of the Credit Facility are the same subsidiaries that guarantee the 2018 Senior Notes, the 2017 Convertible Senior Subordinated Notes and the 2018 Convertible Senior Subordinated Notes. The Company incurred no prepayment penalties in connection with the termination and replacement of the Prior Credit Facility; however, the Company recorded a \$1.7 million loss on early extinguishment of debt related to unamortized issuance fees on the Prior Credit Facility.

At September 30, 2013, borrowing availability under the Credit Facility in accordance with the borrowing base calculation was \$352.9 million, so the full amount of the \$200 million facility was available, and there were no borrowings outstanding and \$13.9 million of letters of credit outstanding under the Credit Facility, leaving net remaining borrowing availability of \$186.1 million as of September 30, 2013.

The Company is party to three secured credit agreements for the issuance of letters of credit outside of the Credit Facility (collectively, the “Letter of Credit Facilities”). During the three months ended September 30, 2013, the Company extended the maturity dates on two of the Letter of Credit Facilities for an additional year to August 31, 2014 and September 30, 2014, respectively, while also increasing the maximum available amount under the facility maturing on September 30, 2014 from \$8.0 million to \$10.0 million. At September 30, 2013, there was \$15.5 million of outstanding letters of credit in aggregate under the Company's three Letter of Credit Facilities, which were collateralized with \$15.8 million of the Company's cash.

Notes Payable — Financial Services

In March 2013, M/I Financial amended and restated the MIF Mortgage Warehousing Agreement, which, among other things, increased the maximum borrowing availability to \$80.0 million and included an accordion feature which allowed for an increase of the maximum borrowing availability of up to an additional \$20.0 million (subject to certain conditions, including obtaining additional commitments from existing or new lenders), extended the expiration date to March 28, 2014, and increased the maximum principal amount permitted to be outstanding at any one time in aggregate under all warehouse credit lines to \$125.0 million. The interest rate was also adjusted to a per annum rate equal to the greater of (1) the floating LIBOR rate plus 275 basis points and (2) 3.50%. On June 3, 2013, M/I Financial exercised the accordion feature described above to increase the amount of our maximum borrowing availability under the MIF Mortgage Warehousing Agreement to \$100.0 million by obtaining additional bank commitments totaling \$20.0 million.

On November 13, 2012, M/I Financial entered into the MIF Mortgage Repurchase Facility with a maximum borrowing availability of \$15.0 million and an expiration date of November 12, 2013. As is typical for similar credit facilities in the mortgage origination industry, at closing, the expiration of the MIF Mortgage Repurchase Facility was set at approximately one year and is under consideration for extension annually by the participating lenders. We expect to extend the MIF Mortgage Repurchase Facility on or prior to the current expiration date of November 12, 2013, but we cannot provide any assurance that we will be able to obtain such an extension.

At September 30, 2013, M/I Financial's total combined maximum borrowing availability under the two credit facilities was \$115.0 million. At September 30, 2013, M/I Financial had \$55.6 million outstanding on a combined basis under its credit facilities and was in compliance with all financial covenants of those agreements.

Convertible Senior Subordinated Notes

In March 2013, the Company issued \$86.3 million aggregate principal amount of 2018 Convertible Senior Subordinated Notes. The 2018 Convertible Senior Subordinated Notes bear interest at a rate of 3.0% per year, payable semiannually in arrears on March 1 and September 1 of each year. The 2018 Convertible Senior Subordinated Notes

mature on March 1, 2018. At any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2018 Convertible Senior Subordinated Notes into the Company's common shares. The conversion rate initially equals 30.9478 shares per \$1,000 of principal amount. This corresponds to an initial conversion price of approximately \$32.31 per common share, which equates to approximately 2.7 million common shares. The conversion rate is subject to adjustment upon the occurrence of certain events. The 2018 Convertible Senior Subordinated Notes are fully and unconditionally guaranteed on a senior subordinated unsecured basis by those subsidiaries of the Company that are guarantors under the Company's 2018 Senior Notes and 2017 Convertible Senior Subordinated Notes. The 2018 Convertible Senior Subordinated Notes are senior subordinated unsecured obligations of the Company and the subsidiary guarantors and are subordinated in right of payment to our existing and future senior indebtedness and are also effectively subordinated to our existing and future secured indebtedness with respect to any assets comprising security or collateral for such indebtedness. The indenture governing the 2018 Convertible Senior Subordinated Notes provides that the Company may not redeem the 2018 Convertible Senior Subordinated Notes prior to March 6, 2016, but also

contains provisions requiring the Company to repurchase the notes (subject to certain exceptions), at a holder's option, upon the occurrence of a fundamental change (as defined in the indenture).

On or after March 6, 2016, the Company may redeem for cash any or all of the 2018 Convertible Senior Subordinated Notes (except for any 2018 Convertible Senior Subordinated Notes that the Company is required to repurchase in connection with a fundamental change), but only if the last reported sale price of the Company's common shares exceeds 130% of the applicable conversion price for the notes on each of at least 20 applicable trading days. The 20 trading days do not need to be consecutive, but must occur during a period of 30 consecutive trading days that ends within 10 trading days immediately prior to the date the Company provides the notice of redemption. The redemption price for the 2018 Convertible Senior Subordinated Notes to be redeemed will equal 100% of the principal amount, plus accrued and unpaid interest, if any.

In September 2012, the Company issued \$57.5 million aggregate principal amount of 2017 Convertible Senior Subordinated Notes. The 2017 Convertible Senior Subordinated Notes bear interest at a rate of 3.25% per year, payable semiannually in arrears on March 15 and September 15 of each year. The 2017 Convertible Senior Subordinated Notes mature on September 15, 2017. At any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2017 Convertible Senior Subordinated Notes into the Company's common shares. The conversion rate initially equals 42.0159 shares per \$1,000 of principal amount. This corresponds to an initial conversion price of approximately \$23.80 per common share, which equates to approximately 2.4 million common shares. The conversion rate is subject to adjustment upon the occurrence of certain events. The 2017 Convertible Senior Subordinated Notes are fully and unconditionally guaranteed on a senior subordinated unsecured basis by those subsidiaries of the Company that are guarantors under the Company's 2018 Senior Notes and 2018 Convertible Senior Subordinated Notes. The 2017 Convertible Senior Subordinated Notes are senior subordinated unsecured obligations of the Company and the subsidiary guarantors and are subordinated in right of payment to our existing and future senior indebtedness and are also effectively subordinated to our existing and future secured indebtedness with respect to any assets comprising security or collateral for such indebtedness. The indenture governing the 2017 Convertible Senior Subordinated Notes provides that we may not redeem the notes prior to their stated maturity date, but also contains provisions requiring the Company to repurchase the 2017 Convertible Senior Subordinated Notes (subject to certain exceptions), at a holder's option, upon the occurrence of a fundamental change (as defined in the indenture).

Senior Notes

As of September 30, 2013, we had \$230.0 million of our 2018 Senior Notes outstanding. The 2018 Senior Notes bear interest at a rate of 8.625% per year, payable semiannually in arrears on May 15 and November 15 of each year, and mature on November 15, 2018. The 2018 Senior Notes are general, unsecured senior obligations of the Company and the subsidiary guarantors and rank equally in right of payment with all our existing and future unsecured senior indebtedness. The 2018 Senior Notes are fully and unconditionally guaranteed on a senior unsecured basis by all of our subsidiaries, with the exception of subsidiaries that are primarily engaged in the business of mortgage financing, title insurance or similar financial businesses relating to the homebuilding and home sales business, certain subsidiaries that are not 100%-owned by the Company or another subsidiary, and other subsidiaries designated by the Company as Unrestricted Subsidiaries in accordance with the terms of the indenture.

The indenture governing our 2018 Senior Notes limits our ability to pay dividends on, and repurchase, our common shares and our 9.75% Series A Preferred Shares (the "Series A Preferred Shares") to the amount of the positive balance in our "restricted payments basket," as defined in the indenture. The restricted payments basket was \$127.5 million at September 30, 2013. The increase in the balance of our restricted payments basket from the second quarter of 2013 was primarily due to the net income of our Restricted Subsidiaries in the third quarter of 2013, offset partially by a \$1.2 million dividend payment made on our Series A Preferred Shares on September 16, 2013. We are permitted to

pay dividends on, and repurchase, our common shares and Series A Preferred Shares to the extent of the positive balance in our restricted payments basket. The determination to pay future dividends on, or make future repurchases of, our common shares or Series A Preferred Shares will be at the discretion of our board of directors and will depend upon our results of operations, financial condition, capital requirements and compliance with debt covenants and the terms of our Series A Preferred Shares, and other factors deemed relevant by our board of directors.

NOTE 10. Earnings Per Share

The table below presents a reconciliation between basic and diluted weighted average shares outstanding, net income available to common shareholders and basic and diluted income per share for the three and nine months ended September 30, 2013 and 2012:

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
NUMERATOR				
Net income	\$125,311	\$8,314	\$137,162	\$8,332
Preferred stock dividends	(1,219)	—	(2,438)	—
Excess of fair value over book value of preferred shares redeemed	—	—	(2,190)	—
Interest on 3.25% convertible senior subordinated notes due 2017	611	128	1,833	—
Interest on 3.00% convertible senior subordinated notes due 2018	824	—	1,851	—
Net income to common shareholders	125,527	8,442	136,218	8,332
DENOMINATOR				
Basic weighted average shares outstanding	24,358	19,434	23,642	19,014
Effect of dilutive securities:				
Stock option awards	183	187	246	92
Deferred compensation awards	119	127	111	132
3.25% convertible senior subordinated notes due 2017	2,416	525	2,416	—
3.00% convertible senior subordinated notes due 2018	2,669	—	1,995	—
Diluted weighted average shares outstanding - adjusted for assumed conversions	29,745	20,273	28,410	19,238
Earnings per common share				
Basic	\$5.09	\$0.43	\$5.61	\$0.44
Diluted	\$4.22	\$0.42	\$4.79	\$0.43
Anti-dilutive equity awards not included in the calculation of diluted earnings per common share	998	695	951	1,003

During both the second and third quarters of 2013, the Company declared a cash dividend of \$609.375 per preferred share on its 2,000 outstanding Series A Preferred Shares. The dividend was paid on June 17, 2013 and September 16, 2013 to holders of record as of June 1, 2013 and September 1, 2013 for \$1.2 million in cash, respectively.

In March 2013, the Company announced its intention to redeem 2,000 of its outstanding Series A Preferred Shares and recognized a \$2.2 million non-cash equity charge in the first quarter of 2013 related to the excess of fair value over carrying value relating primarily to the original issuance costs that were paid in 2007. This charge reduced net income to common shareholders in the earnings per share calculation above for the nine month period ended September 30, 2013. On April 10, 2013, the Company redeemed the 2,000 Series A Preferred Shares for \$50.4 million in cash.

In March 2013, the Company also issued 2.461 million common shares in a public offering at a price of \$23.50 per share (for net proceeds of \$54.6 million), which shares are included above in our total basic weighted average shares outstanding for the nine month period ended September 30, 2013.

For the three months ended September 30, 2013 and 2012 and for the nine months ended September 30, 2013, the effect of convertible debt was included in the diluted earnings per share calculations. For the nine months ended September 30, 2012, the effect of convertible debt was not included in the diluted earnings per share calculations as it would have been anti-dilutive.

NOTE 11. Income Taxes

The Company records income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized based on future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and attributable to operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered or paid. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period when the changes are enacted. At September 30, 2013, the Company's net gross deferred tax asset balance was \$126.6 million, of which \$127.6 million were gross deferred tax assets (reported as such on the Company's consolidated balance

sheets, net of a \$14.9 million valuation allowance), and \$1.0 million were gross deferred tax liabilities (included in other liabilities on the Company's consolidated balance sheets).

In accordance with ASC 740-10, Income Taxes, we evaluate our deferred tax assets, including the benefit from net operating losses ("NOLs") and tax credit carryforwards, to determine if a valuation allowance is required. Companies must assess, using significant judgments, whether a valuation allowance should be established based on the consideration of all available evidence using a "more likely than not" standard with significant weight being given to evidence that can be objectively verified. This assessment gives appropriate consideration to all positive and negative evidence related to the realization of the deferred tax assets and considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the length of statutory carryforward periods, our experience with operating losses and our experience of utilizing tax credit carryforwards and tax planning alternatives. Based upon a review of all available evidence, we recorded a full valuation allowance against our deferred tax assets during 2008 due to economic conditions and the weight of negative evidence at the time.

During the quarter ended September 30, 2013, the Company concluded that it was more likely than not that the majority of its deferred tax assets would be utilized. This conclusion was based on a detailed evaluation of all relevant evidence, both positive and negative. The Company is required to use judgment in considering the relative impact of negative and positive evidence when determining the need for a valuation allowance for its deferred tax asset. The weight given to the potential effect of negative and positive evidence shall be commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is needed.

The positive evidence considered by the Company in its evaluation for each of our taxing jurisdictions was the objective evidence related to our past and current financial results, including a period of sustained profitability comprising six consecutive quarters of pre-tax net income totaling \$43.2 million, and the projected utilization of a majority of our current NOL carryforwards and temporary differences as they reverse in the carryforward periods, generally 20 years. Other positive evidence considered, among other things, was our expectation of continued earnings, and continued indications of a sustained recovery in the housing markets in which the Company operates, as evidenced by the significant increases experienced by the Company in several key financial indicators compared to the prior year, including new contracts, revenues, backlog sales value, new home deliveries and declining overhead leverage as a percent of revenue. We believe that economic data, such as recent and forecasted increases in housing starts, homebuilding volume and average sales prices, also affirm the recovery in the housing industry. We believe historically low mortgage rates, affordable home prices, reduced foreclosures, and a favorable home ownership to rental comparison continue to drive the recovery in the housing industry.

The most significant direct negative evidence that currently exists is that the Company is currently in a four-year cumulative loss position, which period represents our estimated business cycle. However, at September 30, 2013, the Company's cumulative four-year loss has declined significantly as a result of six consecutive quarters of profitability and, based on the Company's current earnings level, the Company will realize a majority of its deferred tax assets. Other negative evidence considered was the recent rise in mortgage interest rates and the potential impact of such rise on our business. While we believe it has caused a temporary slow down in the pace of the housing recovery and related trends compared to previous quarters in 2013, we believe the demand for housing continues to increase new contracts, as evidenced by the 15% increase in new contracts that we experienced during the three months ended September 30, 2013 when compared to the same period in 2012 as well as other factors.

Based on its analysis of positive and negative evidence, the Company concluded that the objective positive evidence outweighed the negative evidence, and that the Company will more likely than not realize a majority of its deferred tax assets. In accordance with GAAP, when a change in valuation allowance is recognized as a result of a change in judgment in an interim period, a portion of the valuation allowance to be reversed must be spread over the remaining interim periods. Accordingly, the Company reversed \$111.6 million of its deferred tax asset valuation allowance during the third quarter of 2013 and retained a \$4.7 million valuation allowance for estimated utilization pertaining to estimated earnings in the fourth quarter of 2013. In addition to the retained \$4.7 million valuation allowance, the Company retained an additional \$10.2 million valuation allowance for certain state jurisdictions which have a shorter

NOL carryforward utilization period or a large NOL carryforward relative to their current earnings. In future periods, the remaining valuation allowance for these state jurisdictions will be evaluated to determine if sufficient positive evidence indicates that it is more likely than not that an additional portion of the underlying state NOL carryforwards will be realized. The Company's net gross deferred tax assets were \$126.6 million at September 30, 2013, which, inclusive of our valuation allowance, results in a net deferred tax asset of \$111.6 million.

The tax effects of the significant temporary differences that comprise the deferred tax assets and liabilities are as follows:

(In thousands)	September 30, 2013	December 31, 2012
Deferred tax assets:		
Warranty, insurance and other accruals	\$11,487	11,378
Inventory	17,417	22,612
State taxes	71	(64)
Net operating loss carryforward	98,007	102,475
Deferred charges	613	336
Total deferred tax assets	127,595	136,737
Deferred tax liabilities:		
Depreciation	397	804
Prepaid expenses	639	184
Total deferred tax liabilities	1,036	988
Net total deferred tax assets	126,559	135,749
Less valuation allowance	(14,913)	(135,749)
Total deferred tax assets, net of valuation allowance	111,646	—

The benefit from income taxes consists of the following:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Current:				
Federal	\$2	\$—	\$2	\$—
State	\$85	\$138	\$515	\$(955)
	\$87	\$138	\$517	\$(955)

(In thousands)

Deferred:				
Federal	\$(104,751)	\$—	\$(104,751)	\$—
State	\$(6,895)	\$—	\$(6,895)	\$—
	(111,646)	—	(111,646)	—
Total	\$(111,559)	\$138	\$(111,129)	\$(955)

At September 30, 2013, the Company had federal NOL carryforwards of approximately \$77.8 million and federal credit carryforwards of \$4.3 million. Federal NOL carryforwards may be carried forward up to 20 years to offset future taxable income. Our federal carryforward benefits begin to expire in 2028. The Company had \$15.9 million of state NOL carryforwards at September 30, 2013. State NOLs may be carried forward from 5 to 20 years, depending on the tax jurisdiction, with \$8.9 million expiring between 2013 and 2027 and \$7.0 million expiring between 2028 and 2032, absent sufficient state taxable income. As of September 30, 2013, we have recorded a \$10.2 million valuation allowance against these state NOLs.

NOTE 12. Business Segments

The Company's segment information is presented on the basis that the chief operating decision makers use in evaluating segment performance. The Company's chief operating decision makers evaluate the Company's performance in various ways, including: (1) the results of our 13 individual homebuilding operating segments and the results of our financial services operations; (2) the results of our three homebuilding regions; and (3) our consolidated financial results. We have determined our reportable segments as follows: Midwest homebuilding, Southern homebuilding, Mid-Atlantic homebuilding and financial services operations. The homebuilding operating segments that are included within each reportable segment have similar operations and exhibit similar long-term economic characteristics. Our homebuilding operations include the acquisition and development of land, the sale and construction of single-family attached and detached homes, and the occasional sale of lots to third parties. The homebuilding operating segments that comprise each of our reportable segments are as follows:

Midwest	Southern	Mid-Atlantic
Columbus, Ohio	Tampa, Florida	Washington, D.C.
Cincinnati, Ohio	Orlando, Florida	Charlotte, North Carolina
Indianapolis, Indiana	Houston, Texas	Raleigh, North Carolina
Chicago, Illinois	San Antonio, Texas	
	Austin, Texas	
	Dallas/Fort Worth, Texas	

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

The following table shows, by segment, revenue, operating income and interest expense for the three and nine months ended September 30, 2013 and 2012, as well as the Company's income before income taxes for such periods:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Revenue:				
Midwest homebuilding	\$82,689	\$79,015	\$222,890	\$198,994
Southern homebuilding	96,275	50,828	216,181	123,400
Mid-Atlantic homebuilding	89,550	72,649	239,061	172,977
Financial services (a)	6,681	6,383	22,343	15,623
Total revenue	\$275,195	\$208,875	\$700,475	\$510,994
Operating income:				
Midwest homebuilding (b)	\$5,114	\$3,940	\$11,696	\$9,012
Southern homebuilding (b)	8,271	6,144	15,222	9,837
Mid-Atlantic homebuilding (b)	8,433	5,787	18,961	9,496
Financial services (a)	3,827	3,960	13,451	8,606
Less: Corporate selling, general and administrative expense	(6,996)	(7,380)	(19,663)	(17,508)
Total operating income	\$18,649	\$12,451	\$39,667	\$19,443
Interest expense:				
Midwest homebuilding	\$1,023	\$1,243	\$3,852	\$4,181
Southern homebuilding	1,405	999	4,510	2,543
Mid-Atlantic homebuilding	659	1,342	2,809	4,248
Financial services (a)	362	415	1,015	1,094

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Total interest expense	\$3,449	\$3,999	\$12,186	\$12,066
Equity in income of unconsolidated joint ventures	(278) —	(278) —
Loss on early extinguishment of debt	1,726	—	1,726	—
Income before income taxes	\$13,752	\$8,452	\$26,033	\$7,377

Our financial services operational results should be viewed in connection with our homebuilding business as its (a) operations originate loans and provide title services primarily for our homebuying customers, with the exception of a small amount of mortgage re-financing.

For the three months ended September 30, 2013 and 2012, the impact of charges relating to the impairment of inventory and investment in unconsolidated joint ventures and the write-off of abandoned land transaction costs (b) was \$2.1 million and \$1.3 million, respectively. These charges reduced operating income by \$2.1 million and \$1.3 million in the Midwest region for the three months ended September 30, 2013 and 2012, respectively. There were no charges in the Mid-Atlantic or Southern regions for the three months ended September 30, 2013 and 2012.

For the nine months ended September 30, 2013 and 2012, the impact of charges relating to the impairment of inventory and investment in unconsolidated joint ventures and the write-off of abandoned land transaction costs was \$4.2 million and \$2.1 million, respectively. These charges reduced operating income by \$4.2 million and \$1.9 million in the Midwest region for the nine months ended September 30, 2013 and 2012, respectively, and \$0.1 million in each of the Southern and Mid-Atlantic regions for the nine months ended September 30, 2012. There were no charges in the Mid-Atlantic or Southern regions for the nine months ended September 30, 2013.

The following tables show total assets by segment at September 30, 2013 and December 31, 2012:

September 30, 2013					
(In thousands)	Midwest	Southern	Mid-Atlantic	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	\$2,141	\$7,737	\$3,477	\$—	\$13,355
Inventory (a)	241,233	212,665	209,083	—	662,981
Investments in unconsolidated joint ventures	5,200	28,888	—	—	34,088
Other assets	7,699	14,186	9,146	341,612	372,643
Total assets	\$256,273	\$263,476	\$221,706	\$341,612	\$1,083,067

December 31, 2012					
(In thousands)	Midwest	Southern	Mid-Atlantic	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	\$1,462	\$4,612	\$2,653	\$—	\$8,727
Inventory (a)	196,554	157,302	194,234	—	548,090
Investments in unconsolidated joint ventures	5,121	6,611	—	—	11,732
Other assets	4,421	8,436	7,759	242,135	262,751
Total assets	\$207,558	\$176,961	\$204,646	\$242,135	\$831,300

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

NOTE 13. Supplemental Guarantor Information

The Company's obligations under the 2018 Senior Notes, the 2017 Convertible Senior Subordinated Notes and the 2018 Convertible Senior Subordinated Notes are not guaranteed by all of the Company's subsidiaries and therefore, the Company has disclosed condensed consolidating financial information in accordance with SEC Regulation S-X Rule 3-10, Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered. The subsidiary guarantors of the 2018 Senior Notes, the 2017 Convertible Senior Subordinated Notes and the 2018 Convertible Senior Subordinated Notes are the same.

The following condensed consolidating financial information includes balance sheets, statements of operations and cash flow information for the parent company, the Guarantor Subsidiaries, collectively, and for all other subsidiaries and joint ventures of the Company (the "Unrestricted Subsidiaries"), collectively. Each Guarantor Subsidiary is a direct or indirect 100%-owned subsidiary of M/I Homes, Inc. and has fully and unconditionally guaranteed the (a) 2018

Senior Notes, on a joint and several senior unsecured basis, (b) the 2017 Convertible Senior Subordinated Notes on a joint and several senior subordinated unsecured basis and (c) the 2018 Convertible Senior Subordinated Notes on a joint and several senior subordinated unsecured basis.

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

As of September 30, 2013, each of the Company's subsidiaries is a Guarantor Subsidiary, with the exception of subsidiaries that are primarily engaged in the business of mortgage financing, title insurance or similar financial businesses relating to the homebuilding and home sales business, certain subsidiaries that are not 100%-owned by the Company or another subsidiary, and other subsidiaries designated by the Company as Unrestricted Subsidiaries, subject to limitations on the aggregate amount invested in such Unrestricted Subsidiaries in accordance with the terms of the Credit Facility and the Indenture for the 2018 Senior Notes.

In the condensed financial tables presented below, the parent company presents all of its 100%-owned subsidiaries as if they were accounted for under the equity method. All applicable corporate expenses have been allocated appropriately among the Guarantor Subsidiaries and Unrestricted Subsidiaries.

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

(In thousands)	Three Months Ended September 30, 2013			Eliminations	Consolidated
	M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries		
Revenue	\$—	\$268,514	\$6,681	\$—	\$275,195
Costs and expenses:					
Land and housing	—	218,150	—	—	218,150
Impairment of inventory and investment in unconsolidated joint ventures	—	2,136	—	—	2,136
General and administrative	—	15,309	2,952	—	18,261
Selling	—	17,979	20	—	17,999
Equity in income of unconsolidated joint ventures	—	—	(278	)—	(278)
Interest	—	3,087	362	—	3,449
Loss on early extinguishment of debt	—	1,726	—	—	1,726
Total costs and expenses	—	258,387	3,056	—	261,443
Income before income taxes	—	10,127	3,625	—	13,752
(Benefit) provision for income taxes	—	(112,694	)1,135	—	(111,559)
Equity in subsidiaries	125,311	—	—	(125,311)—
Net income (loss)	125,311	122,821	2,490	(125,311	)125,311
Preferred dividends	1,219	—	—	—	1,219
Net income (loss) to common shareholders	\$124,092	\$122,821	\$2,490	\$(125,311	)\$124,092
(In thousands)	Three Months Ended September 30, 2012			Eliminations	Consolidated
	M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries		
Revenue	\$—	\$202,492	\$6,383	\$—	\$208,875
Costs and expenses:					
Land and housing	—	164,452	—	—	164,452
Impairment of inventory and investment in unconsolidated joint ventures	—	1,309	—	—	1,309
General and administrative	—	13,425	2,591	—	16,016
Selling	—	14,647	—	—	14,647
Interest	—	3,584	415	—	3,999
Total costs and expenses	—	197,417	3,006	—	200,423
Income before income taxes	—	5,075	3,377	—	8,452
(Benefit) provision for income taxes	—	(1,003)1,141	—	138

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Equity in subsidiaries	8,314	—	—	(8,314))—
Net income (loss)	\$8,314	\$6,078	\$2,236	\$(8,314))\$8,314

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CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

(In thousands)	Nine Months Ended September 30, 2013			Eliminations	Consolidated
	M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries		
Revenue	\$—	\$678,132	\$22,343	\$—	\$700,475
Costs and expenses:					
Land and housing	—	556,799	—	—	556,799
Impairment of inventory and investment in unconsolidated joint ventures	—	4,237	—	—	4,237
General and administrative	—	43,104	9,285	—	52,389
Selling	—	47,317	66	—	47,383
Equity in income of unconsolidated joint ventures	—	—	(278	)—	(278)
Interest	—	11,171	1,015	—	12,186
Loss on early extinguishment of debt	—	1,726	—	—	1,726
Total costs and expenses	—	664,354	10,088	—	674,442
Income before income taxes	—	13,778	12,255	—	26,033
(Benefit) provision for income taxes	—	(115,308	)4,179	—	(111,129)
Equity in subsidiaries	137,162	—	—	(137,162)—
Net income (loss)	137,162	129,086	8,076	(137,162	)137,162
Preferred dividends	2,438	—	—	—	2,438
Excess of fair value over book value of preferred shares redeemed	2,190	—	—	—	2,190
Net income (loss) to common shareholders	\$132,534	\$129,086	\$8,076	\$(137,162	)\$132,534

(In thousands)	Nine Months Ended September 30, 2012			Eliminations	Consolidated
	M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries		
Revenue	\$—	\$495,371	\$15,623	\$—	\$510,994
Costs and expenses:					
Land and housing	—	408,893	—	—	408,893
Impairment of inventory and investment in unconsolidated joint ventures	—	1,876	—	—	1,876
General and administrative	—	34,938	7,361	—	42,299
Selling	—	38,482	1	—	38,483
Interest	—	10,972	1,094	—	12,066
Total costs and expenses	—	495,161	8,456	—	503,617
Income before income taxes	—	210	7,167	—	7,377

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(Benefit) provision for income taxes	—	(3,403)2,448	—	(955)
Equity in subsidiaries	8,332	—	—	(8,332)—	
Net income (loss)	\$8,332	\$3,613	\$4,719	\$(8,332)\$8,332	

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CONDENSED CONSOLIDATING BALANCE SHEET

(In thousands)	September 30, 2013				Eliminations	Consolidated
	M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries			
ASSETS:						
Cash and cash equivalents	\$—	\$126,254	\$16,221	\$—		\$142,475
Restricted cash	—	15,806	—	—		15,806
Mortgage loans held for sale	—	—	60,388	—		60,388
Inventory	—	676,336	—	—		676,336
Property and equipment - net	—	10,139	207	—		10,346
Investment in unconsolidated joint ventures	—	14,656	19,432	—		34,088
Investment in subsidiaries	521,617	—	—	(521,617)		—
Deferred income taxes, net of valuation allowances	—	112,164	518	—		112,682
Intercompany assets	319,136	—	—	(319,136)		—
Other assets	10,547	12,389	8,010	—		30,946
TOTAL ASSETS	\$851,300	\$967,744	\$104,776	\$(840,753)		\$1,083,067
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES:						
Accounts payable	\$—	\$85,383	\$421	\$—		\$85,804
Customer deposits	—	14,918	—	—		14,918
Intercompany liabilities	—	298,130	21,006	(319,136)		—
Other liabilities	—	54,669	7,641	—		62,310
Community development district obligations	—	3,419	—	—		3,419
Obligation for consolidated inventory not owned	—	1,576	—	—		1,576
Notes payable bank - financial services operations	—	—	55,614	—		55,614
Notes payable - other	—	8,126	—	—		8,126
Convertible senior subordinated notes due 2017	57,500	—	—	—		57,500
Convertible senior subordinated notes due 2018	86,250	—	—	—		86,250
Senior notes	227,970	—	—	—		227,970
TOTAL LIABILITIES	371,720	466,221	84,682	(319,136)		603,487
SHAREHOLDERS' EQUITY	479,580	501,523	20,094	(521,617)		479,580
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$851,300	\$967,744	\$104,776	\$(840,753)		\$1,083,067

CONDENSED CONSOLIDATING BALANCE SHEET

(In thousands)	December 31, 2012				Eliminations	Consolidated
	M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries			
ASSETS:						
Cash and cash equivalents	\$—	\$126,334	\$19,164	\$—		\$145,498
Restricted cash	—	8,680	—	—		8,680
Mortgage loans held for sale	—	—	71,121	—		71,121
Inventory	—	540,761	16,056	—		556,817
Property and equipment - net	—	10,314	125	—		10,439
Investment in unconsolidated joint ventures	—	—	11,732	—		11,732
Investment in subsidiaries	391,555	—	—	(391,555))	—
Intercompany assets	219,962	—	—	(219,962))	—
Other assets	9,081	12,375	5,557	—		27,013
TOTAL ASSETS	\$620,598	\$698,464	\$123,755	\$ (611,517)		\$831,300
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES:						
Accounts payable	\$—	\$46,882	\$808	\$—		\$47,690
Customer deposits	—	10,239	—	—		10,239
Intercompany liabilities	—	205,389	14,573	(219,962))	—
Other liabilities	—	44,230	5,742	—		49,972
Community development district obligations	—	4,634	—	—		4,634
Obligation for consolidated inventory not owned	—	3,549	15,556	—		19,105
Notes payable bank - financial services operations	—	—	67,957	—		67,957
Notes payable - other	—	11,105	—	—		11,105
Convertible senior subordinated notes due 2017	57,500	—	—	—		57,500
Senior notes	227,670	—	—	—		227,670
TOTAL LIABILITIES	285,170	326,028	104,636	(219,962)		495,872
SHAREHOLDERS' EQUITY	335,428	372,436	19,119	(391,555)		335,428
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$620,598	\$698,464	\$123,755	\$ (611,517)		\$831,300

(a) Certain amounts above have been reclassified from intercompany assets to intercompany liabilities as of December 31, 2012. These reclassifications relate solely to transactions between M/I Homes, Inc. and its subsidiaries and are immaterial to the Supplemental Condensed Consolidated Financial Statements. These reclassifications do not impact the Company's consolidated financial statements.

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

(In thousands)	Nine Months Ended September 30, 2013				Consolidated
	M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash provided by (used in) operating activities	\$7,100	\$(60,703)	\$20,267	\$(7,100)	\$(40,436)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Restricted cash	—	(7,274)	—	—	(7,274)
Purchase of property and equipment	—	(1,528)	(126)	—	(1,654)
Investments in and advances to unconsolidated joint ventures	—	(14,657)	(10,839)	—	(25,496)
Return of capital from unconsolidated joint ventures	—	—	1,522	—	1,522
Net cash used in investing activities	—	(23,459)	(9,443)	—	(32,902)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Repayments of bank borrowings - net	—	—	(12,343)	—	(12,343)
Principal repayments of note payable - other and community development district bond obligations	—	(2,979)	—	—	(2,979)
Proceeds from issuance of convertible senior subordinated notes due 2018	86,250	—	—	—	86,250
Redemption of preferred shares	(50,352)	—	—	—	(50,352)
Proceeds from issuance of common shares	54,617	—	—	—	54,617
Proceeds from exercise of stock options	2,640	—	—	—	2,640
Excess tax benefits from stock-based payment arrangements	383	—	—	—	383
Intercompany financing	(98,200)	92,463	5,737	—	—
Dividends paid	(2,438)	—	(7,100)	7,100	(2,438)
Debt issue costs	—	(5,402)	(61)	—	(5,463)
Net cash (used in) provided by financing activities	(7,100)	84,082	(13,767)	7,100	70,315
Net (decrease) increase in cash and cash equivalents	—	(80)	(2,943)	—	(3,023)
Cash and cash equivalents balance at beginning of period	—	126,334	19,164	—	145,498
Cash and cash equivalents balance at end of period	\$—	\$126,254	\$16,221	\$—	\$142,475

(In thousands)	Nine Months Ended September 30, 2012				Consolidated
	M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash (used in) provided by operating activities	\$2,000	\$(20,546)	\$4,225	\$(2,000)	\$(16,321)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Restricted cash	—	32,391	—	—	32,391

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Purchase of property and equipment	—	(786) (72) —	(858)
Acquisition, net of cash acquired	—	(4,707) —	—	(4,707)
Investments in and advances to unconsolidated joint ventures	—	—	(949	) —	(949)
Net cash provided by (used in) investing activities	—	26,898	(1,021	) —	25,877	
CASH FLOWS FROM FINANCING ACTIVITIES:						
Proceeds from bank borrowings - net	—	—	2,234	—	2,234	
Repayment of Senior Notes	(41,443	) —	—	—	(41,443)
Principal proceeds from note payable - other and community development district bond obligations	—	4,968	—	—	4,968	
Proceeds from issuance of convertible senior subordinated notes due 2017	57,500	—	—	—	57,500	
Proceeds from issuance of common shares	42,085	—	—	—	42,085	
Intercompany financing	(91,057	) 91,852	(795) —	—	
Proceeds from issuance of senior notes	29,700	—	—	—	29,700	
Dividends paid	—	—	(2,000	) 2,000	—	
Debt issue costs	—	(5,812	) (31	) —	(5,843)
Proceeds from exercise of stock options	1,215	—	—	—	1,215	
Net cash provided by (used in) financing activities	(2,000	) 91,008	(592	) 2,000	90,416	
Net increase in cash and cash equivalents	—	97,360	2,612	—	99,972	
Cash and cash equivalents balance at beginning of period	—	43,539	16,254	—	59,793	
Cash and cash equivalents balance at end of period	\$—	\$ 140,899	\$ 18,866	\$—	\$ 159,765	

Certain amounts above have been reclassified from intercompany financing to dividends paid and cash flows from operating activities for the nine months ended September 30, 2012. These reclassifications relate solely to (a) transactions between M/I Homes, Inc. and its subsidiaries and are immaterial to the Supplemental Condensed Consolidated Financial Statements. These reclassifications do not impact the Company's consolidated financial statements.

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

OVERVIEW

M/I Homes, Inc. (the “Company” or “we”) is one of the nation’s leading builders of single-family homes, having delivered approximately 86,000 homes since we commenced homebuilding activities in 1976. The Company’s homes are marketed and sold under the M/I Homes, Showcase Collection and Triumph Homes trade names. The Company has homebuilding operations in Columbus and Cincinnati, Ohio; Indianapolis, Indiana; Chicago, Illinois; Tampa and Orlando, Florida; Austin, Dallas/Fort Worth, Houston and San Antonio, Texas; Charlotte and Raleigh, North Carolina; and the Virginia and Maryland suburbs of Washington, D.C.

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

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

FORWARD-LOOKING STATEMENTS

Certain information included in this report or in other materials we have filed or will file with the Securities and Exchange Commission (the “SEC”) (as well as information included in oral statements or other written statements made or to be made by us) contains or may contain forward-looking statements, including, but not limited to, statements regarding our future financial performance and financial condition. Words such as “expects,” “anticipates,” “targets,” “goals,” “projects,” “intends,” “plans,” “believes,” “seeks,” and “estimates,” variations of such words and similar expressions are intended to identify such forward-looking statements. These statements involve a number of risks and uncertainties. Any forward-looking statements that we make herein and in future reports and statements are not guarantees of future performance, and actual results may differ materially from those in such forward-looking statements as a result of various risk factors. Please see “Item 1A. Risk Factors” in Part I of our Annual Report on Form 10-K for the year ended December 31, 2012 and “Item 1A. Risk Factors” of Part II of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013 and June 30, 2013.

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

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES AND POLICIES

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

statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. On an ongoing basis, management evaluates such estimates and judgments and makes adjustments as deemed necessary. Actual results could differ from these estimates using different estimates and assumptions, or if conditions are significantly different in the future. See Note 1 (Summary of Significant Accounting Policies) to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012 for additional information about our accounting policies.

We believe that there have been no significant changes to our critical accounting policies during the quarter ended September 30, 2013 as compared to those disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2012.

RESULTS OF OPERATIONS

The Company's segment information is presented on the basis that the chief operating decision makers use in evaluating segment performance. The Company's chief operating decision makers evaluate the Company's performance in various ways, including: (1) the results of our 13 individual homebuilding operating segments and the results of our financial services operations; (2) the results of our three homebuilding regions; and (3) our consolidated financial results. We have determined our reportable segments as follows: Midwest homebuilding, Southern homebuilding, Mid-Atlantic homebuilding and financial services operations. The homebuilding operating segments that are included within each reportable segment have similar operations and exhibit similar long-term economic characteristics. Our homebuilding operations include the acquisition and development of land, the sale and construction of single-family attached and detached homes, and the occasional sale of lots and land to third parties. The homebuilding operating segments that comprise each of our reportable segments are as follows:

Midwest	Southern	Mid-Atlantic
Columbus, Ohio	Tampa, Florida	Washington, D.C.
Cincinnati, Ohio	Orlando, Florida	Charlotte, North Carolina
Indianapolis, Indiana	Houston, Texas	Raleigh, North Carolina
Chicago, Illinois	San Antonio, Texas	
	Austin, Texas	
	Dallas/Fort Worth, Texas	

In July 2013, we announced our entry into the Dallas/Fort Worth, Texas market.

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

Overview

During the nine months ended September 30, 2013, we continued to experience improving results as the recovery in the housing market continued. We believe that the recovery in the housing industry is being driven by the demand for housing created by growing population and re-accelerating household formations, favorable own-versus-rent dynamics, record low inventory levels for both new homes and resales, historically attractive affordability levels, and a slow but steady improvement in job growth. We continue to experience broad based improvements across all of our markets, albeit at a slower pace than the first half of 2013.

We experienced significant improvement in traffic quantity and quality, as well as our number of new contracts, during the nine months ended September 30, 2013, as buyer confidence in the housing market strengthened, and we achieved our highest operating margin in any quarter since 2007 during the third quarter of 2013. We believe that our improved results of operations are due to improving market conditions coupled with a strategic shift in our mix of communities towards better performing locations, our continued focus on shifting our investment to stronger housing markets, and the performance of our mortgage operations.

During the third quarter of 2013, we achieved net income of \$125.3 million, of which \$13.8 million (\$0.47 per diluted share) related to our core profitability while \$111.6 million (\$3.75 per diluted share) related to the accounting benefit associated with a reversal of a majority of our deferred tax asset valuation allowance as more fully described in Note 11 of our Unaudited Condensed Consolidated Financial Statements.

In response to the continuing recovery in new home sales, we have increased our land positions to meet our strategic growth targets in each market, based on the availability of well-located land opportunities which meet our financial return targets and other requirements. To sustain our improved profitability, we believe that we need to purchase new

land at prices that we have underwritten to generate appropriate investment returns and drive greater operating efficiencies. Accordingly, we purchased \$156.7 million of new land during the nine months ended September 30, 2013 and spent \$67.5 million on land development.

On July 18, 2013, we entered into a new three-year unsecured revolving credit facility (the "Credit Facility") with an aggregate commitment amount of \$200 million, as more fully described below in our "Liquidity and Capital Resources" section, which replaced the \$140 million secured revolving credit facility (the "Prior Credit Facility") that was scheduled to mature on December 31, 2014. During the three and nine months ended September 30, 2013, we recognized a loss on early extinguishment of debt of \$1.7 million which represented the write-off of unamortized debt issuance costs related to the termination of the Prior Credit Facility.

During the three and nine months ended September 30, 2013, we paid cash dividends of \$609.375 per preferred share on our 2,000 outstanding Series A Preferred Shares for \$1.2 million and \$2.4 million, respectively.

Summary of Company Results

Summary of Financial Results

For the quarter ended September 30, 2013, we achieved net income to common shareholders of \$124.1 million, or \$4.22 per diluted share, which included a \$111.6 million accounting benefit from income taxes due to the reversal of a majority of the valuation allowance against our deferred tax assets, offset partially by \$2.1 million of pre-tax impairment charges, a \$1.7 million charge related to the early termination of our Prior Credit Facility and \$1.2 million of dividend payments made to holders of our Series A Preferred Shares. This compares to net income to common shareholders of \$8.3 million, or \$0.42 per diluted share, for the quarter ended September 30, 2012, which included income of \$3.0 million related to a drywall settlement and \$1.3 million of pre-tax impairment charges. For the nine months ended September 30, 2013, we achieved net income to common shareholders of \$132.5 million, or \$4.79 per diluted share, which included a \$111.6 million accounting benefit from income taxes due to the reversal of a majority of the valuation allowance against our deferred tax assets, \$4.2 million of pre-tax impairment charges, a \$2.2 million non-cash equity adjustment resulting from the excess of fair value over carrying value of our Series A Preferred Shares that were called for redemption in the first quarter of 2013 and \$2.4 million of dividend payments made to holders of our Series A Preferred Shares. This compares to net income to common shareholders of \$8.3 million, or \$0.43 per diluted share, for the nine months ended September 30, 2012, which included income of \$3.0 million related to a drywall settlement and \$1.9 million of pre-tax impairment charges.

For the third quarter of 2013, we recorded \$265.9 million in revenue from homes delivered, \$2.6 million in revenue from land sales and \$6.7 million in revenue from our financial services operations. Revenue from homes delivered increased 34% driven primarily by the 191 additional homes delivered in 2013's third quarter compared to the same period in 2012 and a 7% increase in the average sales price of homes delivered (\$18,000 per home delivered). Offsetting the increase in revenue from homes delivered above was a decrease in revenue from land sales of \$1.5 million from the third quarter of 2012 due primarily to land sales in our Mid-Atlantic region in prior year. Revenue in our financial services segment increased 5% to \$6.7 million in the third quarter of 2013 primarily due to the factors discussed below in our "Year Over Year Comparisons" section. For the nine months ended September 30, 2013, we recorded \$665.4 million in revenue from homes delivered, \$12.8 million in revenue from land sales and \$22.3 million in revenue from our financial services operations. Revenue from homes delivered increased 37% driven primarily by the 474 additional homes delivered in the nine months ended September 30, 2013 compared to the same period in 2012 and a 9% increase in the average sales price of homes delivered (\$24,000 per home delivered). Revenue from land sales increased \$3.8 million from the nine months ended September 30, 2012. Revenue in our financial services segment increased 43% to \$22.3 million in the nine months ended September 30, 2013 primarily due to the factors discussed below in our "Year Over Year Comparisons" section.

Total gross margin increased \$11.8 million in the third quarter of 2013 compared to the corresponding period in 2012, which was largely the result of an \$11.5 million improvement in our homebuilding operations, with the remainder due to our financial services operations. The improvement in our homebuilding operations for the third quarter of 2013 was primarily due to a \$15.3 million increase in homebuilding gross margin when compared to the third quarter of 2012, offset, in part, by an increase of \$0.8 million in land impairments taken during the third quarter of 2013. For the nine months ended September 30, 2013, total gross margin increased \$39.2 million when compared to the nine months ended September 30, 2012, which was largely the result of a \$32.5 million improvement in our homebuilding operations, with the remainder due to our financial services operations. The improvement in our homebuilding operations for the nine months ended September 30, 2013 was primarily due to a \$34.9 million increase in homebuilding gross margin when compared to the nine months ended September 30, 2012, offset in part by an

increase of \$2.4 million in land impairments taken during the nine month period ended September 30, 2013.

The increase in homebuilding gross margin for both the three and nine months ended September 30, 2013 resulted from the increase in the average sales price of homes delivered and the increase in the number of homes delivered offset, in part, by an increase in construction costs. The increased sales prices for both the three and nine months ended September 30, 2013 were driven primarily by the performance of our newer communities, the strategic shift in our geographic footprint, which resulted in more homes delivered in our better performing markets, a shift in the mix of homes delivered to higher priced and larger homes and improving market conditions. This allowed for more pricing leverage in select locations and submarkets. The pricing and unit improvements were partially offset by higher construction costs related to both the mix of homes delivered as well as cost increases associated with improving homebuilding industry conditions and normal supply and demand dynamics. In both the third quarter and the nine month period ended September 30, 2013, we were able to pass a majority of the higher construction costs to our homebuyers in the form of higher sales prices and lower incentives. However, recent moderation in the stronger sales price appreciation trends

we experienced earlier in 2013 may make it more difficult to continue to fully offset any further increase in material, labor and land cost that we may experience going forward.

Selling, general and administrative expense increased \$5.6 million and \$19.0 million for the three and nine months ended September 30, 2013, respectively, which offset, in part, the increase in our gross margins discussed above. For the third quarter of 2013, selling expense increased \$3.4 million from the prior year's third quarter but declined as a percentage of revenue to 6.6% compared to 7.0% in the third quarter of 2012. Variable selling expense for sales commissions contributed \$2.9 million to the increase due to the increase in the number of homes delivered and the increase in our average sales price. During the third quarter of 2013, general and administrative expense increased \$2.2 million but declined as a percentage of revenue to 6.6% compared to 7.7% for the third quarter of 2012. For the nine months ended September 30, 2013, selling expense increased \$8.9 million from the nine months ended September 30, 2012 but declined as a percentage of revenue to 6.8% compared to 7.5% in the nine months ended September 30, 2012. Variable selling expense for sales commissions contributed \$7.7 million to the increase due to the increase in the number of homes delivered and the higher average sales price. General and administrative expense increased \$10.1 million compared to the nine months ended September 30, 2012 but declined as a percentage of revenue from 8.3% in the nine months ended September 30, 2012 to 7.5% in the nine months ended September 30, 2013. Overall, our selling, general and administrative expense was 13.2% and 14.2% of revenue in the third quarter and nine months ended September 30, 2013, respectively, compared to 14.7% and 15.8% for the same periods in 2012, respectively.

Summary of Operational Results

In addition to the improving financial results noted above, our operational metrics also improved. For the quarter ended September 30, 2013, we achieved a 15% increase in our new contracts and a 26% increase in homes delivered. For the nine months ended September 30, 2013, we achieved a 28% increase in our new contracts and a 25% increase in homes delivered. We also experienced a 36% increase in the number of homes in our backlog and a 46% increase in the overall sales value of our backlog as of September 30, 2013 compared to September 30, 2012. Furthermore, we continue to invest in communities and markets that we believe are helping us attain improved profitability as housing markets improve and enhance our ability to establish market share and create a platform for future growth in our current markets. During the nine month period ended September 30, 2013, we opened 47 new communities and closed 31 older communities. We have continued to make progress selling the remaining homes in our older communities, which have lower margins. For the nine months ended September 30, 2013, we reduced the number of homes delivered in older communities to 22% of our total homes delivered during the period, compared to 31% of the total homes delivered during the nine months ended September 30, 2012. Additionally, our absorption rates per community improved from 2.1 for the nine months ended September 30, 2012 to 2.4 for the nine months ended September 30, 2013.

Outlook

Looking ahead, although the rate of improvement in the overall housing industry may moderate due to the upward movement in interest rates which occurred during the second quarter of 2013 as well as a decline in consumer confidence resulting from recent political and economic uncertainty, we believe that the fundamentals supporting a sustained multi-year housing recovery remain strong. Despite a moderation in the pace of improvement in new home sales activity during the third quarter and concerns reflected in recent sales volatility, we believe that longer-term demand for new homes will continue to improve as consumers continue to perceive good values amidst limited supply and generally low interest rates. We believe that we will continue to benefit from the recovery in housing sales, though maybe not at the same rate of improvement that we experienced during the first six months of 2013. Specifically, the pace and increase in our new contracts and average sales price when compared to our prior year results may be less than what we have experienced to date in 2013, and this slower pace of improvement may lead to

related impacts on the level of year-over-year improvements in our financial results.

Given our expectations with respect to homebuilding market conditions, and consistent with our focus on improving long-term returns, we will continue to emphasize the following strategic business objectives during the remainder of 2013:

- profitably growing our presence in our existing markets;
- strategically investing in new markets;
- maintaining a strong balance sheet; and
- emphasizing customer service, product design, and premier locations.

With these objectives and improving market conditions in mind, we took a number of steps during the nine months ended September 30, 2013 to position the Company for continued improvement throughout 2013 and beyond, including investing \$156.7 million in land acquisition and \$67.5 million in land development in the nine month period ended September 30, 2013 to help grow our

presence in our existing markets. We currently estimate that for fiscal 2013, we will spend approximately \$300 million to \$350 million on land purchases and land development.

We ended the third quarter of 2013 with \$158.3 million of cash, no outstanding borrowings under our \$200 million Credit Facility.

The following table shows, by segment, revenue; homebuilding gross margin; selling, general and administrative expense; operating income; and interest expense for the three and nine months ended September 30, 2013 and 2012, as well as the Company's income before income taxes for such periods:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue:				
Midwest homebuilding	\$82,689	\$79,015	\$222,890	\$198,994
Southern homebuilding	96,275	50,828	216,181	123,400
Mid-Atlantic homebuilding	89,550	72,649	239,061	172,977
Financial services (a)	6,681	6,383	22,343	15,623
Total revenue	\$275,195	\$208,875	\$700,475	\$510,994
Gross margin:				
Midwest homebuilding (b)	\$13,406	\$12,118	\$35,156	\$30,727
Southern homebuilding (b)	17,992	11,962	40,077	25,410
Mid-Atlantic homebuilding (b)	16,830	12,651	41,863	28,465
Financial services (a)	6,681	6,383	22,343	15,623
Total gross margin	\$54,909	\$43,114	\$139,439	\$100,225
Selling, general and administrative expense:				
Midwest homebuilding	\$8,292	\$8,178	\$23,460	\$21,715
Southern homebuilding	9,721	5,818	24,855	15,573
Mid-Atlantic homebuilding	8,397	6,864	22,902	18,969
Financial services (a)	2,854	2,423	8,892	7,017
Corporate	6,996	7,380	19,663	17,508
Total selling, general and administrative expense	\$36,260	\$30,663	\$99,772	\$80,782
Operating income (loss):				
Midwest homebuilding (b)	\$5,114	\$3,940	\$11,696	\$9,012
Southern homebuilding (b)	8,271	6,144	15,222	9,837
Mid-Atlantic homebuilding (b)	8,433	5,787	18,961	9,496
Financial services (a)	3,827	3,960	13,451	8,606
Corporate	(6,996)	(7,380)	(19,663)	(17,508)
Total operating income	\$18,649	\$12,451	\$39,667	\$19,443
Interest expense:				
Midwest homebuilding	\$1,023	\$1,243	\$3,852	\$4,181
Southern homebuilding	1,405	999	4,510	2,543
Mid-Atlantic homebuilding	659	1,342	2,809	4,248
Financial services (a)	362	415	1,015	1,094
Total interest expense	\$3,449	\$3,999	\$12,186	\$12,066

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Equity in income of unconsolidated joint ventures	(278) —	(278) —
Loss on early extinguishment of debt	1,726	—	1,726	—
Income before income taxes	\$13,752	\$8,452	\$26,033	\$7,377

Our financial services operational results should be viewed in connection with our homebuilding business as its (a) operations originate loans and provide title services primarily for our homebuying customers, with the exception of a small amount of mortgage re-financing.

For the three months ended September 30, 2013 and 2012, the impact of charges relating to the impairment of inventory and investment in unconsolidated joint ventures and the write-off of abandoned land transaction costs was \$2.1 million and \$1.3 million, respectively. These charges reduced gross margin and operating income by \$2.1 (b) million and \$1.3 million in the Midwest region for the three months ended September 30, 2013 and 2012, respectively. There were no charges in the Mid-Atlantic or Southern regions for the three months ended September 30, 2013 and 2012.

For the nine months ended September 30, 2013 and 2012, the impact of charges relating to the impairment of inventory and investment in unconsolidated joint ventures and the write-off of abandoned land transaction costs was \$4.2 million and \$2.1 million, respectively. These charges reduced operating income by \$4.2 million and \$1.9 million in the Midwest region for the nine months ended September 30, 2013 and 2012, respectively, and \$0.1 million in each of

the Southern and Mid-Atlantic regions for the nine months ended September 30, 2012. There were no charges in the Mid-Atlantic or Southern regions for the nine months ended September 30, 2013.

The following tables show total assets by segment at September 30, 2013 and December 31, 2012:

At September 30, 2013

(In thousands)	Midwest	Southern	Mid-Atlantic	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	\$2,141	\$7,737	\$ 3,477	\$—	\$13,355
Inventory (a)	241,233	212,665	209,083	—	662,981
Investments in unconsolidated joint ventures	5,200	28,888	—	—	34,088
Other assets	7,699	14,186	9,146	341,612	372,643
Total assets	\$256,273	\$263,476	\$ 221,706	\$341,612	\$1,083,067

At December 31, 2012

(In thousands)	Midwest	Southern	Mid-Atlantic	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	\$1,462	\$4,612	\$ 2,653	\$—	\$8,727
Inventory (a)	196,554	157,302	194,234	—	548,090
Investments in unconsolidated joint ventures	5,121	6,611	—	—	11,732
Other assets	4,421	8,436	7,759	242,135	262,751
Total assets	\$207,558	\$176,961	\$ 204,646	\$242,135	\$831,300

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

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Reportable Segments

The following table presents, by reportable segment, selected financial information for the three and nine months ended September 30, 2013 and 2012:

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Midwest Region				
Homes delivered	307	307	837	795
New contracts, net	318	274	1,062	913
Backlog at end of period	643	505	643	505
Average sales price per home delivered	\$269	\$257	\$263	\$250
Average sales price of homes in backlog	\$297	\$267	\$297	\$267
Aggregate sales value of homes in backlog	\$190,932	\$135,086	\$190,932	\$135,086
Revenue homes	\$82,641	\$79,015	\$220,018	\$198,374
Revenue third party land sales	\$48	\$—	\$2,872	\$620
Operating income homes	\$5,110	\$3,940	\$12,681	\$9,083
Operating income (loss) land	\$4	\$—	\$(985)	\$(70)
Number of active communities	66	58	66	58
Southern Region				
Homes delivered	354	223	794	543
New contracts, net	289	224	1,043	707
Backlog at end of period	590	362	590	362
Average sales price per home delivered	\$269	\$226	\$269	\$226
Average sales price of homes in backlog	\$287	\$263	\$287	\$263
Aggregate sales value of homes in backlog	\$169,547	\$95,299	\$169,547	\$95,299
Revenue homes	\$95,315	\$50,382	\$213,518	\$122,748
Revenue third party land sales	\$960	\$447	\$2,663	\$653
Operating income homes	\$7,924	\$6,141	\$13,845	\$9,837
Operating income land	\$347	\$4	\$1,377	\$—
Number of active communities	46	34	46	34
Mid-Atlantic Region				
Homes delivered	276	216	721	540
New contracts, net	262	259	889	727
Backlog at end of period	374	312	374	312
Average sales price per home delivered	\$319	\$319	\$322	\$306
Average sales price of homes in backlog	\$341	\$333	\$341	\$333
Aggregate sales value of homes in backlog	\$127,610	\$103,951	\$127,610	\$103,951
Revenue homes	\$87,930	\$69,009	\$231,840	\$165,277
Revenue third party land sales	\$1,620	\$3,640	\$7,221	\$7,700
Operating income homes	\$8,116	\$5,017	\$17,397	\$7,960
Operating income land	\$317	\$770	\$1,564	\$1,536
Number of active communities	35	36	35	36
Total Homebuilding Regions				
Homes delivered	937	746	2,352	1,878
New contracts, net	869	757	2,994	2,347
Backlog at end of period	1,607	1,179	1,607	1,179
Average sales price per home delivered	\$284	\$266	\$283	\$259
Average sales price of homes in backlog	\$304	\$284	\$304	\$284

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Aggregate sales value of homes in backlog	\$488,089	\$334,336	\$488,089	\$334,336
Revenue homes	\$265,886	\$198,406	\$665,376	\$486,399
Revenue third party land sales	\$2,628	\$4,087	\$12,756	\$8,973
Operating income homes	\$21,150	\$15,098	\$43,923	\$26,880
Operating income land	\$668	\$774	\$1,956	\$1,466
Number of active communities	147	128	147	128
Financial Services				
Number of loans originated	689	606	1,783	1,589
Value of loans originated	\$165,660	\$139,020	\$426,637	\$355,075
Revenue	\$6,681	\$6,383	\$22,343	\$15,623
Selling, general and administrative expense	2,854	2,423	8,892	7,017
Interest expense	362	415	1,015	1,094
Income before income taxes	\$3,465	\$3,545	\$12,436	\$7,512

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

Cancellation Rates

The following table sets forth the cancellation rates for each of our homebuilding segments for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,				
	2013	2012	2013	2012			
Midwest	18.0	% 18.7	% 18.6	% 16.8	%		
Southern	17.2	% 23.8	% 14.7	% 18.9	%		
Mid-Atlantic	15.2	% 11.3	% 11.6	% 12.0	%		
Total cancellation rate	16.9	% 18.0	% 15.3	% 16.0	%		

Seasonality

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

Year Over Year Comparisons

Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

Midwest Region. Our Midwest region had operating income of \$5.1 million for the three months ended September 30, 2013, a \$1.2 million increase from our operating income of \$3.9 million for the three months ended September 30, 2012. This improvement is a result of the factors described below.

For the quarter ended September 30, 2013, homebuilding revenue in our Midwest region increased \$3.7 million, from \$79.0 million in the third quarter of 2012 to \$82.7 million in the third quarter of 2013, and our homebuilding gross margin percentage improved to 16.2% for the quarter ended September 30, 2013 compared to 15.3% for the same period in 2012, inclusive of impairment charges. This 5% increase in homebuilding revenue and 90 basis point improvement in gross margin percentage was the result of a 5% increase in the average sales price of homes delivered (\$12,000 per home delivered). The number of homes delivered remained flat for the third quarter of 2013 compared to the same period a year ago at 307 deliveries primarily due to longer building cycle times, specifically in our Indianapolis division due to lengthier building permit approval times. Partially offsetting these improvements was an \$0.8 million increase in asset impairment charges taken in the third quarter of 2013 compared to the same period in 2012 and higher construction costs related to both the mix of homes delivered as well as cost increases in labor and materials associated with improving housing market conditions and normal supply and demand dynamics.

Selling, general and administrative expense increased \$0.1 million from \$8.2 million for the quarter ended September 30, 2012 to \$8.3 million for the quarter ended September 30, 2013 but declined slightly as a percentage of revenue to

10.0% for the three months ended September 30, 2013 compared to 10.3% for the same period in 2012. The slight increase in selling, general and administrative expense was due to a \$0.1 million increase in sales commissions due to higher average sales prices of homes delivered, a \$0.4 million increase in variable compensation expenses associated with the improved operating performance in the region and a \$0.3 million increase in other land-related expenses, which were offset, in part, by the absence of the \$0.7 million charge taken in 2012's third quarter for the acceleration of leasehold improvement depreciation for rental space we exited early.

During the three months ended September 30, 2013, we experienced a 16% increase in new contracts in our Midwest region, from 274 in the third quarter of 2012 to 318 in the third quarter of 2013. Backlog increased 27% from 505 homes at September 30, 2012 to 643 homes at September 30, 2013, with an average sales price in backlog of \$297,000 at September 30, 2013 compared to \$267,000 at September 30, 2012. These improvements were primarily due to increased activity related to our Cincinnati division as a result of higher-end product offerings and improving sub-market conditions, in addition to an increased number of active

communities in our Cincinnati and Indianapolis divisions compared to a year ago. During the three months ended September 30, 2013, we opened four new communities in our Midwest region compared to six during 2012's third quarter. Our monthly absorption rate in our Midwest region declined slightly to 1.6 per community in the third quarter of 2013 compared to 1.7 per community in 2012's third quarter.

Southern Region. Our Southern region had operating income of \$8.3 million for the quarter ended September 30, 2013, a \$2.2 million increase from our operating income of \$6.1 million for the third quarter of 2012. The increase in operating income was primarily the result of improvement in our homebuilding revenue as well as a \$0.3 million profit relating to the sale of land to third parties offset, in part, by a \$3.9 million increase in selling, general and administrative expense.

During the three months ended September 30, 2013, homebuilding revenue in our Southern region increased \$45.5 million, from \$50.8 million in the third quarter of 2012 to \$96.3 million in the third quarter of 2013. This 89% increase in homebuilding revenue was the result of a 59% increase in the number of homes delivered (131 units), which was primarily due to increased activity related to our Florida divisions, and a 19% increase in the average sales price of homes delivered (\$43,000 per home delivered) as well as an increase of \$0.5 million in land sale revenue. Our homebuilding gross margin improved \$6.0 million, or 50%, primarily from the improvements in the average sales price of homes delivered and the number of homes delivered described above as well as from a \$0.3 million profit from the sale of land, compared to the third quarter of 2012, yielding a gross margin percentage of 18.7% for the quarter ended September 30, 2013 compared to 23.5% for the quarter ended September 30, 2012. This decline in gross margin percentage was primarily due to the \$3.0 million settlement the Company received in the third quarter of 2012 related to defective imported drywall. Absent this settlement, our gross margin percentage for the three months ended September 30, 2012 was 17.6%, resulting in a 110 basis point improvement for the three months ended September 30, 2013. Partially offsetting these improvements were higher construction costs related to both the mix of homes delivered as well as cost increases in labor and materials associated with improving housing market conditions and normal supply and demand dynamics.

Selling, general and administrative expense increased \$3.9 million from \$5.8 million in the third quarter of 2012 to \$9.7 million in the third quarter of 2013 but declined as a percentage of revenue to 10.1% for the three months ended September 30, 2013 compared to 11.4% for the third quarter of 2012. The \$2.6 million increase in selling expense was due to a \$1.9 million increase in variable selling expenses, which resulted from increases in sales commissions due to the higher average sales price of homes delivered and number of homes delivered, as well as due to a \$0.7 million increase in expenses related to our design centers and sales offices. The \$1.3 million increase in general and administrative expense was primarily due to a \$0.7 million increase in variable compensation expenses associated with the improved operating performance in this region, a \$0.2 million increase in payroll-related expenses related to our new Austin and Dallas divisions, and a \$0.2 million increase in land-related expenses.

During the three months ended September 30, 2013, we experienced a 29% increase in new contracts in our Southern region, from 224 in the third quarter of 2012 to 289 for the quarter ended September 30, 2013. Backlog increased 63% from 362 homes at September 30, 2012 to 590 homes at September 30, 2013, with an average sales price in backlog of \$287,000 at September 30, 2013 compared to \$263,000 at September 30, 2012. These improvements were primarily due to an increased number of active communities at September 30, 2013 compared to prior year as our Texas operations continue to grow. During the three months ended September 30, 2013, we opened nine new communities in our Southern region compared to five during 2012's third quarter. Our monthly absorption rate in our Southern region remained flat at 2.2 per community in both the third quarter of 2013 and 2012.

Mid-Atlantic Region. Our Mid-Atlantic region had operating income of \$8.4 million for the quarter ended September 30, 2013, a \$2.6 million increase from our operating income of \$5.8 million in the third quarter of 2012. This increase in operating income was primarily the result of improvement in our homebuilding revenue and related gross margin,

offset, in part, by a \$1.5 million increase in selling, general and administrative expense.

For the three month period ended September 30, 2013, homebuilding revenue in our Mid-Atlantic region increased \$17.0 million from \$72.6 million in the third quarter of 2012 to \$89.6 million in the third quarter of 2013, and our homebuilding gross margin improved \$4.2 million compared to the third quarter of 2012, yielding a gross margin percentage of 18.8% for the quarter ended September 30, 2013 compared to 17.4% for the quarter ended September 30, 2012. This 23% increase in revenue and 33% improvement in gross margin was the result of a 28% increase in the number of homes delivered (60 units). Partially offsetting these improvements was a decrease of \$2.0 million in land sale revenue as well as higher construction costs related to both the mix of homes delivered and cost increases in labor and materials associated with improving housing market conditions and normal supply and demand dynamics.

Selling, general and administrative expense increased \$1.5 million from \$6.9 million in the third quarter of 2012 to \$8.4 million in the third quarter of 2013 and remained flat as a percentage of revenue, ending at 9.4% for both the three months ended September 30, 2013 and 2012. The \$0.9 million increase in selling expense was primarily due to an increase in variable selling expenses,

which resulted from the increase in sales commissions due to the increase in the number of homes delivered. The \$0.6 million increase in general and administrative expense related primarily to increased variable compensation expenses associated with the improved operating performance in this region.

During the three months ended September 30, 2013, we experienced a 1% increase in new contracts in our Mid-Atlantic region, from 259 in the third quarter of 2012 to 262 in the third quarter of 2013, primarily due to a lower number of active communities in the region as well as a change in the mix and stage of completion of our current active communities when compared to prior year. Backlog increased 20% from 312 homes at September 30, 2012 to 374 homes at September 30, 2013, with an average sales price in backlog of \$341,000 at September 30, 2013 compared to \$333,000 at September 30, 2012. We opened four new communities in our Mid-Atlantic region during the third quarter of 2013 compared to one new community opened during the same period in 2012. Our monthly absorption rate in our Mid-Atlantic region increased slightly to 2.5 per community in the third quarter of 2013 from 2.4 per community in the third quarter of 2012.

Financial Services. Revenue from our mortgage and title operations increased \$0.3 million (5%) from \$6.4 million in the third quarter of 2012 to \$6.7 million in the third quarter of 2013 as a result of several factors: (1) a 14% increase in the number of loan originations, from 606 in the third quarter of 2012 to 689 in the third quarter of 2013; (2) a 5% increase in the average loan amount from \$229,000 in the quarter ended September 30, 2012 to \$240,000 in the quarter ended September 30, 2013; and (3) additional revenue due to retaining mortgage servicing rights, offset, in part, by lower margins on the loans sold and a continued shift in product mix from government to conventional financing, where margins on sale are generally lower. We experienced a \$0.1 million decrease in operating income in the third quarter of 2013 in our mortgage and title operations compared to 2012's third quarter, which was due to the increase in revenue discussed above offset by a \$0.4 million increase in selling, general, and administrative expense for the three months ended September 30, 2013 compared to the same period in 2012. The increase in selling, general, and administrative expenses was due to a \$0.8 million increase in payroll related expenses offset partially by a \$0.4 million decrease in expenses related to mortgage loans sold.

At September 30, 2013, M/I Financial provided financing services in all of our markets. Approximately 81% of our homes delivered during the third quarter of 2013 were financed through M/I Financial compared to 85% in the third quarter of 2012. The decrease in our overall capture rate was due to a higher percentage of our homes delivered being in Texas where our financial services operations are not fully in place, as is typical in newer markets. Capture rate is influenced by financing availability and can fluctuate up or down from quarter to quarter.

Corporate Selling, General and Administrative Expense. Corporate selling, general and administrative expense decreased \$0.4 million, from \$7.4 million in the third quarter of 2012 to \$7.0 million in the third quarter of 2013. The decrease was primarily due to a \$0.7 million recovery of legal fees from our insurance carrier received in relation to our drywall product liability litigation, offset, in part, by an increase in share based and variable incentive compensation associated with our improved financial performance.

Interest Expense - Net. Interest expense for the Company decreased \$0.6 million, from \$4.0 million in the three months ended September 30, 2012 to \$3.4 million in the three months ended September 30, 2013. This decrease was primarily the result of a decline in our weighted average borrowing rate from 8.83% in the third quarter of 2012 to 7.51% for third quarter of 2013, related to the addition of our two convertible debt issuances which have significantly lower interest rates compared to our other debt outstanding in those periods, as well as increased capitalized interest related to our increased land development during the third quarter of 2013 compared to prior year. Partially offsetting these decreases was an increase in our weighted average borrowings outstanding from \$294.7 million in 2012's third quarter to \$396.8 million in 2013's third quarter related to the issuance of \$86.3 million aggregate principal amount of 2018 Convertible Senior Subordinated Notes in the first quarter of 2013 as well as the result of the \$57.5 million aggregate principal amount of 2017 Convertible Senior Subordinated Notes that were issued at the end of 2012's third

quarter.

Earnings from Unconsolidated Joint Ventures. Earnings from unconsolidated joint ventures represents our portion of pre-tax earnings from our joint ownership and development agreements, joint ventures and other similar arrangements. The \$0.3 million increase in 2013 as compared to 2012 is primarily attributable to third party lot sales.

Loss on Early Extinguishment of Debt. Loss on early extinguishment of debt is attributable to the write-off of unamortized debt issuance costs associated with the termination of our Prior Credit Facility that was scheduled to mature on December 31, 2014. During the quarter ended September 30, 2013, we recognized a loss on early extinguishment of debt of \$1.7 million.

Income Taxes. We reversed \$111.6 million of the valuation allowance against our deferred tax assets during the quarter ended September 30, 2013. After the reversal, we had a valuation allowance of \$14.9 million against our deferred tax assets as of

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September 30, 2013, \$4.7 million of which is related to intra-period tax allocation and is expected to reverse in the fourth quarter of 2013. As a result, we will continue to report tax rate at or near zero on our income statement for the remainder of the year. The remaining \$10.2 million relates to a valuation allowance related to state net operating loss carryforwards for which we currently do not meet the "more likely than not" criteria for realization of such carryforwards.

Our overall effective tax rate was (811.2)% for the third quarter of 2013 and 1.6% for the third quarter of 2012. The decrease in our effective tax rate for the third quarter of 2013, in addition to our increase in pre-tax income of \$5.3 million compared to prior year, is primarily attributable to the reversal of a majority of the valuation allowance against our deferred tax assets during the quarter ended September 30, 2013 as described above. The effective rates are not reflective of our historical tax rate or our effective tax rate in future periods due to our deferred tax asset valuation allowance.

Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

Midwest Region. Our Midwest region had operating income of \$11.7 million for the nine months ended September 30, 2013, a \$2.7 million increase from our operating income of \$9.0 million for the nine months ended September 30, 2012. This improvement is a result of the factors described below.

For the nine months ended September 30, 2013, homebuilding revenue in our Midwest region increased \$23.9 million, from \$199.0 million for the nine months ended September 30, 2012 to \$222.9 million for the nine months ended September 30, 2013. This 12% increase in homebuilding revenue was the result of a 5% increase in the number of homes delivered (42 units), which was primarily related to increased activity in our Cincinnati and Chicago divisions offset by fewer active communities in our Columbus division compared to a year ago, and a 5% increase in the average sales price of homes delivered (\$13,000 per home delivered) as well as an increase of \$2.3 million in land sale revenue. Our homebuilding gross margin improved \$4.4 million, or 14%, primarily from the improvements in the number of homes delivered and the average sales price of homes delivered described above, compared to 2012's first nine months, yielding a gross margin percentage of 15.8% for the nine months ended September 30, 2013 compared to 15.4% for the same period in 2012. Partially offsetting these improvements was a \$2.4 million increase in asset impairment charges taken in the nine months ended September 30, 2013 compared to the same period in 2012 and higher construction costs related to both the mix of homes delivered as well as cost increases in labor and materials associated with improving housing market conditions and normal supply and demand dynamics.

Selling, general and administrative expense increased \$1.8 million from \$21.7 million for the nine months ended September 30, 2012 to \$23.5 million for the nine months ended September 30, 2013 but declined as a percentage of revenue to 10.5% for the nine months ended September 30, 2013 from 10.9% for 2012's first nine months. The \$0.4 million increase in selling expense was primarily due to a \$0.9 million increase in variable selling expenses, which resulted from increases in sales commissions due to the higher average sales price of homes delivered and number of homes delivered, offset, in part, by the absence of the \$0.7 million charge taken in 2012's third quarter for the acceleration of leasehold improvement depreciation for rental space we exited early. The \$1.4 million increase in general and administrative expense was primarily due to a \$0.9 million increase in variable compensation expenses associated with the improved operating performance in this region and a \$0.5 million increase in land-related expenses.

We experienced a 16% increase in new contracts in our Midwest region for the nine months ended September 30, 2013, from 913 in the nine months ended September 30, 2012 to 1062 for the same period in 2013. Backlog increased 27% from 505 homes at September 30, 2012 to 643 homes at September 30, 2013, with an average sales price in backlog of \$297,000 at September 30, 2013 compared to \$267,000 at September 30, 2012. These improvements were primarily due to increased activity related to our Cincinnati division as a result of higher-end product offerings and

improving sub-market conditions, and more attractive community locations compared to a year ago. During the nine months ended September 30, 2013, we opened 14 new communities in our Midwest region compared to 10 during 2012's first nine months. Our monthly absorption rate in our Midwest region increased to 1.9 per community in the nine months ended September 30, 2013 compared to 1.8 per community in 2012's first nine months.

Southern Region. Our Southern region had operating income of \$15.2 million for the nine months ended September 30, 2013, a \$5.4 million increase from our operating income of \$9.8 million for the nine months ended September 30, 2012. The increase in operating income was primarily the result of improvement in our homebuilding revenue as well as a \$1.4 million profit relating to the sale of land to third parties, offset, in part, by a \$9.3 million increase in selling, general, and administrative expense.

During the nine months ended September 30, 2013, homebuilding revenue in our Southern region increased \$92.8 million, from \$123.4 million in the nine months ended September 30, 2012 to \$216.2 million in the nine months ended September 30, 2013. This 75% increase in homebuilding revenue was the result of a 46% increase in the number of homes delivered (251 units) and a 19% increase in the average sales price of homes delivered (\$43,000 per home delivered) as well as an increase of \$2.0 million in

land sale revenue. Our homebuilding gross margin improved \$14.7 million, or 58%, primarily from the improvements in the average sales price of homes delivered and the number of homes delivered described above as well as from a \$1.4 million profit from the sale of land, compared to the nine months ended September 30, 2012, yielding a gross margin percentage of 18.5% for the nine months ended September 30, 2013 compared to 20.6% for the nine months ended September 30, 2012. This decline in gross margin percentage was primarily due to the \$3.0 million settlement the Company received in the third quarter of 2012 related to defective imported drywall. Absent this settlement, our gross margin percentage for the nine months ended September 30, 2012 was 18.2%, resulting in a 40 basis point improvement for the nine month period ended September 30, 2013. Partially offsetting these improvements were higher construction costs related to both the mix of homes delivered as well as cost increases in labor and materials associated with improving housing market conditions and normal supply and demand dynamics.

Selling, general and administrative expense increased \$9.3 million from \$15.6 million in the nine months ended September 30, 2012 to \$24.9 million in the nine months ended September 30, 2013 but declined as a percentage of revenue to 11.5% for the nine months ended September 30, 2013 from 12.6% for the nine months ended September 30, 2012. The \$5.5 million increase in selling expense was primarily due to a \$3.8 million increase in variable selling expenses, which resulted from increases in sales commissions due to the higher average sales price of homes delivered and number of homes delivered, as well as due to a \$1.7 million increase in expenses related to our design centers and sales offices. The \$3.8 million increase in general and administrative expense was primarily due to a \$1.8 million increase in variable compensation expenses associated with the improved operating performance in this region, a \$0.4 million increase in payroll-related expenses related to our new Austin and Dallas divisions and an \$0.8 million increase in land-related expenses.

During the nine months ended September 30, 2013, we experienced a 48% increase in new contracts in our Southern region during the nine months ended September 30, 2013, from 707 in the nine month period ended September 30, 2012 to 1,043 for the same period in 2013, primarily due to increased activity related to our Houston division. Backlog increased 63% from 362 homes at September 30, 2012 to 590 homes at September 30, 2013, with an average sales price in backlog of \$287,000 at September 30, 2013 compared to \$263,000 at September 30, 2012. These improvements were primarily due to an increased number of active communities at September 30, 2013 compared to prior year as our Texas operations continue to grow. During the nine months ended September 30, 2013, we opened 21 new communities in our Southern region compared to 16 new communities opened during 2012's first nine months (five of which were acquired in our April 2012 acquisition). Our monthly absorption rate in our Southern region increased to 2.9 per community in the nine months ended September 30, 2013 compared to 2.5 per community in the nine months ended September 30, 2012.

Mid-Atlantic Region. Our Mid-Atlantic region had operating income of \$19.0 million for the nine months ended September 30, 2013, a \$9.5 million increase from our operating income of \$9.5 million in the nine months ended September 30, 2012. This increase was primarily due to the improvement in our homebuilding revenue, offset in part, by a \$3.9 million increase in selling, general and administrative expense.

For the nine month period ended September 30, 2013, homebuilding revenue in our Mid-Atlantic region increased \$66.1 million from \$173.0 million in the nine months ended September 30, 2012 to \$239.1 million in the nine months ended September 30, 2013, and our homebuilding gross margin improved \$13.4 million compared to the nine months ended September 30, 2012, yielding a gross margin percentage of 17.5% for the nine months ended September 30, 2013 compared to 16.5% for the nine months ended September 30, 2012. This 38% increase in revenue and 47% improvement in our gross margin was the result of a 34% increase in the number of homes delivered (181 units), primarily related to increases in average sales price and changes in mix and stage of completion of existing communities when compared to prior year, as well as a 5% increase in the average sales price of homes delivered (\$16,000 per home delivered). Partially offsetting these improvements were higher construction costs related to both the mix of homes delivered as well as cost increases in labor and materials associated with improving housing market conditions and normal supply and demand dynamics.

Selling, general and administrative expense increased \$3.9 million from \$19.0 million in the nine months ended September 30, 2012 to \$22.9 million in the nine months ended September 30, 2013 but declined as a percentage of revenue to 9.6% for the nine months ended September 30, 2013 from 11.0% for the same period in 2012. The increase in selling expense was primarily due to a \$2.9 million increase in variable selling expenses, which resulted from the increase in sales commissions due to the higher average sales price of homes delivered and number of homes delivered. The \$1.0 million increase in general and administrative expense was primarily due to an increase in variable compensation expenses associated with the improved operating performance in this region.

During the nine months ended September 30, 2013, we experienced a 22% increase in new contracts in our Mid-Atlantic region, from 727 in the nine months ended September 30, 2012 to 889 in the nine months ended September 30, 2013 and a 20% increase in the number of homes in backlog from 312 homes at September 30, 2012 to 374 homes at September 30, 2013, primarily related

to increased activity in our Raleigh division. Additionally, our average sales price in backlog increased to \$341,000 at September 30, 2013 compared to \$333,000 at September 30, 2012. During the nine months ended September 30, 2013, we opened 12 new communities in our Mid-Atlantic region compared to eight new communities opened during the same period in 2012. Our monthly absorption rate in our Mid-Atlantic region increased to 2.9 per community in the nine months ended September 30, 2013, compared to 2.3 per community in the same period in 2012.

Financial Services. Revenue from our mortgage and title operations increased \$6.7 million (43%) from \$15.6 million in the nine months ended September 30, 2012 to \$22.3 million in the nine months ended September 30, 2013 as a result of several factors: (1) a 12% increase in the number of loan originations, from 1,589 in the nine months ended September 30, 2012 to 1,783 in the same period in 2013; (2) a 7% increase in the average loan amount from \$223,000 in the nine months ended September 30, 2012 to \$239,000 in the nine months ended September 30, 2013; (3) higher margins on our loans sold earlier in the year than we experienced in 2012's first nine months; and (4) additional revenue due to retaining mortgage servicing rights. We ended the nine months ended September 30, 2013 with a \$4.8 million increase in operating income compared to the nine months ended September 30, 2012, which was primarily due to the increase in revenue discussed above. Offsetting these improvements was a \$1.9 million increase in selling, general and administrative expense for the nine months ended September 30, 2013 compared to the same period in 2012, primarily due to an increase in payroll related expenses.

At September 30, 2013, M/I Financial provided financing services in all of our markets. Approximately 79% of our homes delivered during the nine months ended September 30, 2013 were financed through M/I Financial compared to 84% in the same period in 2012. The decrease in our overall capture rate was due to a higher percentage of our homes delivered being in Texas where our financial services operations are not fully in place, as is typical in newer markets. Capture rate is influenced by financing availability and can fluctuate up or down from quarter to quarter.

Corporate Selling, General and Administrative Expense. Corporate selling, general and administrative expense increased \$2.2 million, from \$17.5 million in the nine months ended September 30, 2012 to \$19.7 million in the nine months ended September 30, 2013. The increase was primarily due to a \$1.7 million increase in share based and variable incentive compensation associated with our improved financial performance, a \$0.7 million increase in professional fees and an \$0.8 million increase related to the absence of our net gain on purchase accounting related to our April 2012 acquisition, offset partially by a \$0.7 million recovery of legal fees from our insurance carrier received in connection with our drywall product liability litigation and a \$0.5 million decrease in depreciation charges.

Interest Expense - Net. Interest expense for the Company increased \$0.1 million, from \$12.1 million for the nine months ended September 30, 2012 to \$12.2 million for the nine months ended September 30, 2013. This slight increase was primarily the result of an increase in our weighted average borrowings from \$279.1 million in the nine months ended September 30, 2012 to \$387.2 million in nine months ended September 30, 2013 related to the issuance of \$57.5 million aggregate principal amount of 2017 Convertible Senior Subordinated Notes in the third quarter of 2012 and the issuance of \$86.3 million aggregate principal amount of 2018 Convertible Senior Subordinated Notes in the first quarter of 2013. Partially offsetting this increase was a decline in our weighted average borrowing rate from 9.01% in the nine months ended September 30, 2012 to 7.67% for 2013's first nine months, related to the addition of our two convertible debt issuances, which have significantly lower interest rates compared to our other debt outstanding in those periods, as well as an increase in our capitalized interest related to increased land development during the nine months ended September 30, 2013 compared to prior year.

Earnings from Unconsolidated Joint Ventures. Earnings from unconsolidated joint ventures represents our portion of pre-tax earnings from our joint ownership and development agreements, joint ventures and other similar arrangements. The \$0.3 million increase in 2013 as compared to 2012 is primarily attributable to third party lot sales.

Loss on Early Extinguishment of Debt. Loss on early extinguishment of debt is attributable to the write-off of unamortized debt issuance costs associated with the termination of our Prior Credit Facility that was scheduled to

mature on December 31, 2014. During the nine months ended September 30, 2013, we recognized a loss on early extinguishment of debt of \$1.7 million.

Income Taxes. We reversed \$111.6 million of the valuation allowance against our deferred tax assets during the quarter ended September 30, 2013. After the reversal, we had a valuation allowance of \$14.9 million against our deferred tax assets as of September 30, 2013, \$4.7 million of which is related to intra-period tax allocation and is expected to reverse in the fourth quarter of 2013. As a result, we will continue to report tax rate at or near zero on our income statement for the remainder of the year. The remaining \$10.2 million relates to a valuation allowance related to state net operating loss carryforwards for which we currently do not meet the "more likely than not" criteria for realization of such carryforwards.

Our overall effective tax rate was (426.9)% for the nine months ended September 30, 2013 and (12.9)% for the same period in 2012. The decrease in our effective tax rate for the nine months ended September 30, 2013, in addition to the \$18.7 million increase in our pre-tax income compared to prior year, is primarily related to the reversal of a majority of the valuation allowance against our deferred tax assets during the quarter ended September 30, 2013. The effective rates are not reflective of our historical tax rate or our effective tax rate in future periods due to our deferred tax asset valuation allowance.

LIQUIDITY AND CAPITAL RESOURCES

Overview of Capital Resources and Liquidity

At September 30, 2013, we had \$158.3 million of cash, cash equivalents and restricted cash, with \$142.5 million of this amount comprised of unrestricted cash and cash equivalents. We believe that our balance of unrestricted cash and available borrowing options, including availability under our Credit Facility (described in further detail below), along with proceeds from home deliveries and other sources of liquidity, will be sufficient to fund our currently anticipated working capital needs, investment in land and land development, construction of homes, planned capital spending, and debt service requirements for at least the next twelve months. However, we routinely monitor current operational requirements, financial market conditions, and credit relationships and we may choose to issue new debt and/or equity securities as management deems necessary.

Our net income or loss historically does not approximate cash flow from operating activities. The difference between net income or loss and cash flow from operating activities is primarily caused by changes in inventory levels together with changes in receivables, prepaid and other assets, interest and other accrued liabilities, deferred income taxes, accounts payable, mortgage loans and liabilities, and non-cash charges relating to depreciation, stock compensation awards and impairment losses for inventory, among other things.

At September 30, 2013 and December 31, 2012, our ratio of net debt to net capital was 37% and 39%, respectively, calculated as total debt minus total cash, cash equivalents and restricted cash, divided by the sum of total debt minus total cash, cash equivalents and restricted cash plus shareholders' equity. The decrease compared to December 31, 2012 was due to an increase in shareholder's equity, primarily related to our net earnings, which included the reversal of a majority of our valuation allowance against our deferred tax assets, along with \$54.6 million of additional paid in capital resulting from the issuance of 2.461 million of our common shares in March 2013, partially offset by the redemption of 2,000 of our Series A Preferred Shares during the second quarter of 2013 for \$50.4 million and the increase in debt as a result of the issuances of our 2018 Convertible Senior Subordinated Notes. We believe that the ratio of net debt to net capital is useful in understanding the leverage employed in our operations and comparing us with other homebuilders.

Operating Cash Flow Activities

During the nine month period ended September 30, 2013, we used \$40.4 million of cash in our operating activities, compared to cash used in operating activities of \$16.3 million during the nine months ended September 30, 2012. As is typical in the homebuilding industry, our primary uses of cash in operating our business are for land purchases, land development expenditures, home construction, interest expense, selling expenses, and general and administrative expenses. The primary source of cash is typically revenues from home deliveries, along with revenues from our financial services operations.

The net increase of \$24.1 million in cash used in operating activities during the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012 was primarily due to the \$71.4 million increase in the net change in total inventory, offset, in part, by an \$18.7 million improvement in pretax income for the nine month period (as more fully described within the "Summary of Financial Results" section above) as well as net changes of

\$15.1 million in accounts payable and a \$13.1 million net increase related to proceeds from the sale of mortgage loans net of the amount of mortgage loan originations.

Due to our debt and equity offerings in both the third quarter of 2012 and the first quarter of 2013, as well as our net earnings for the year ended December 31, 2012 and the nine months ended September 30, 2013, we had the flexibility to invest capital to grow our operations during the nine months ended September 30, 2013. We spent \$156.7 million on land purchases and \$67.5 million on land development, for total land spending of \$224.2 million during the nine months ended September 30, 2013.

Based upon our business activity levels, liquidity, leverage, market conditions, and opportunities for land in our markets, we currently estimate that we will spend approximately \$300 million to \$350 million on land purchases and land development during 2013, including the \$224.2 million spent during the nine months ended September 30, 2013. However, land transactions are subject to a number of factors, including our financial condition and market conditions, as well as satisfaction of various conditions related to specific properties. We will continue to monitor market conditions and our ongoing pace of home deliveries and adjust our land spending accordingly. The planned increase in our land spending in 2013 compared with 2012 is driven primarily by our growth

objectives and the ability of our divisions to contract for land in our markets on terms that meet our risk and return targets. In addition, we expect a larger portion of our land investment will continue to shift from finished lot purchases to land acquisition and development, which will result in increased inventory levels. Over the past several years, the majority of our land investments have been purchases of finished lots in most of our markets. During 2012 and throughout the nine months ended September 30, 2013, we have begun increasing the amount of our investments in undeveloped land and our land development spending as the availability of finished lots in attractive locations declined in many of our markets.

In the normal course of our business, in addition to our land purchases, we have continued to enter into land option agreements, taking into consideration current and projected market conditions, in order to secure land for the construction of homes in the future. Pursuant to these land option agreements, we have deposits and prepaid acquisition costs totaling \$26.0 million as of September 30, 2013 as consideration for the right to purchase land and lots in the future, including the right to purchase \$340.1 million of land and lots during 2013 through 2019.

Investing Cash Flow Activities

During the nine months ended September 30, 2013, we used \$32.9 million of cash for investing activities, compared to generating \$25.9 million of cash from investing activities in the nine months ended September 30, 2012. The \$58.8 million difference was partially due to the change in restricted cash, which decreased \$39.7 million from the nine months ended September 30, 2012, primarily as a result of an amendment to the Company's Prior Credit Facility in January of 2012 that permitted the Company to release \$25.0 million of restricted cash that had been pledged to the lenders under the Prior Credit Facility. At September 30, 2013, restricted cash consisted of homebuilding cash the Company had pledged as collateral in accordance with our secured Letter of Credit Facilities. In addition, we increased our investment in unconsolidated joint ventures by \$24.5 million during the nine months ended September 30, 2013 primarily due to joint investments with other builders in two separate land developments in our Southern region.

Financing Cash Flow Activities

During the nine months ended September 30, 2013, we generated \$70.3 million of cash from our financing activities, compared to generating \$90.4 million of cash during the nine months ended September 30, 2012. The decrease in cash generated was primarily the result of the amount by which the proceeds from our issuances of common shares, senior notes and convertible senior notes during the nine months ended September 30, 2012 exceeded the proceeds from our issuances of common shares and convertible senior notes during the same period in 2013, along with the redemption of 2,000 of our Series A Preferred Shares during the second quarter of 2013, offset by the repayment of senior notes during the second quarter of 2012. In addition, we increased our repayments of bank borrowings within the Financial Services Segment during the nine months ended September 30, 2013 compared with the nine months ended September 30, 2012.

The financing needs of our homebuilding and financial services operations depend on anticipated sales volume in the current year as well as future years, inventory levels and related turnover, forecasted land and lot purchases, debt maturity dates, and other Company plans. We fund these operations with cash flows from operating activities, borrowings under our credit facilities, and, from time to time, issuances of new debt and/or equity securities, as management deems necessary.

Included in the table below is a summary of our available sources of cash from financing sources as of September 30, 2013:

(In thousands)	Expiration Date	Outstanding Balance	Available Amount
Notes payable – homebuilding (a)	7/18/2016	\$—	\$ 186,058

Notes payable – financial services (b)	3/28/2014	\$55,614	\$463
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(a) On July 18, 2013, we entered into the Credit Facility which replaced our Prior Credit Facility that was scheduled to mature on December 31, 2014. The available amount is computed in accordance with the borrowing base calculation under the Credit Facility, which totaled \$352.9 million of availability at September 30, 2013, such that the the full \$200 million commitment amount of the facility was available, less any borrowings and letters of credit outstanding. There we no borrowings and \$13.9 million of letters of credit outstanding at September 30, 2013, leaving \$186.1 million available. The commitment amount can be increased from \$200 million up to \$225 million in the aggregate, contingent on obtaining additional commitments from lenders. The Credit Facility has an expiration date of July 18, 2016.

(b) The available amount is computed in accordance with the borrowing base calculations under M/I Financial Corp.'s \$100 million secured mortgage warehousing agreement as amended and restated on March 29, 2013 (the “MIF Mortgage Warehousing Agreement”) and M/I Financial's mortgage repurchase agreement dated November 13, 2012, as amended (the “MIF Mortgage Repurchase Facility”), each of which may be increased by pledging additional mortgage collateral. The maximum aggregate commitment amount of M/I Financial's warehousing agreements is \$115 million. The MIF Mortgage Warehousing Agreement has an expiration date of March 28, 2014 and the MIF Mortgage Repurchase Facility has an expiration date of November 12, 2013.

Notes Payable - Homebuilding.

Homebuilding Credit Facility.

On July 18, 2013, the Company entered into the Credit Facility which provides for an aggregate commitment amount of \$200 million, including a \$100 million sub-facility for letters of credit. In addition, the Credit Facility has an accordion feature under which the Company may increase the aggregate commitment amount of the Credit Facility up to \$225 million, subject to certain conditions, including obtaining additional commitments from existing or new lenders. The Credit Facility matures on July 18, 2016. Borrowings under the Credit Facility are at the Alternate Base Rate plus 2.25% or at the Eurodollar Rate plus 3.25%.

The Credit Facility replaced the Prior Credit Facility that was scheduled to mature on December 31, 2014. The letters of credit that were outstanding under the Prior Credit Facility became outstanding letters of credit under the Credit Facility. The Company incurred no prepayment penalties in connection with the termination and replacement of the Prior Credit Facility.

Borrowings under the Credit Facility are unsecured and availability is subject to, among other things, a borrowing base equal to 100% of unrestricted cash, plus 100% of escrow proceeds receivable, plus 90% of the book value of units under contract, plus 75% of the book value of inventory homes and model homes, plus 65% of the book value of finished lots, plus 50% of the book value of lots under development, and plus 35% of the book value of entitled land, less the amount of other senior indebtedness of the Company, which totaled \$234.1 million at September 30, 2013. As of September 30, 2013, borrowing availability under the Credit Facility was \$352.9 million in accordance with the borrowing base calculation, such that the the full \$200 million commitment amount of the facility was available, less any borrowings and letters of credit outstanding. There were no borrowings outstanding and \$13.9 million of letters of credit outstanding under the Credit Facility at September 30, 2013, leaving net remaining borrowing availability of \$186.1 million.

The Company's obligations under the Credit Facility are guaranteed by all of the Company's subsidiaries, with the exception of subsidiaries that are primarily engaged in the business of mortgage financing, title insurance or similar financial businesses relating to the homebuilding and home sales business, certain subsidiaries that are not 100%-owned by the Company or another subsidiary, and other subsidiaries designated by the Company as Unrestricted Subsidiaries, subject to limitations on the aggregate amount invested in such Unrestricted Subsidiaries. The guarantors for the Credit Facility are the same subsidiaries that guarantee the 2018 Senior Notes, the 2017 Convertible Senior Subordinated Notes, and the 2018 Convertible Senior Subordinated Notes.

The Credit Facility is governed by a Credit Agreement dated July 18, 2013. The Credit Facility contains various representations, warranties and affirmative, negative and financial covenants. The covenants, as more fully described and defined in the Credit Agreement, require, among other things, that the Company must maintain a minimum level of Consolidated Tangible Net Worth, maintain a leverage ratio not in excess of 60%, and maintain as of the end of each fiscal quarter either a minimum Interest Coverage Ratio of 1.50 to 1.00 or liquidity not less than the total amount of interest incurred during the period of twelve months ending on the last day of such fiscal quarter. In addition, the Credit Facility contains covenants that limit the amount of the Company's unsold owned land, secured indebtedness, and the number of unsold housing units and model homes, as well as the amount of Investments in Unrestricted Subsidiaries and Joint Ventures.

As of September 30, 2013, the Company was in compliance with all covenants of the Credit Facility. The following table summarizes the most significant restrictive covenant thresholds under the Credit Facility and our compliance with such covenants as of September 30, 2013:

Financial Covenant	Covenant Requirement (Dollars in millions)	Actual
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Consolidated Tangible Net Worth	≥	\$298.9		\$448.9	
Leverage Ratio	≤	60	%	38	%
Interest Coverage Ratio	≥	1.5 to 1.0		3.1 to 1.0	
Investments in Unrestricted Subsidiaries and Joint Ventures	≤	\$134.7		\$22.3	
Unsold Housing Units and Model Homes	≤	1,208		714	

Homebuilding Letter of Credit Facilities. The Company is party to three secured credit agreements for the issuance of letters of credit outside of the Credit Facility (collectively, the “Letter of Credit Facilities”). During the three months ended September 30, 2013, the Company extended the maturity dates of two of the Letter of Credit Facilities for an additional year to August 31, 2014 and September 30, 2014, respectively, and increased the maximum available amount under the facility maturing on September 30, 2014 from \$8.0 million to \$10.0 million. The maturity dates for the Letter of Credit Facilities range from June 1, 2014 to

September 30, 2014. Under the terms of the Letter of Credit Facilities, letters of credit can be issued for maximum terms ranging from one year up to three years. The Letter of Credit Facilities contain cash collateral requirements ranging from 101% to 105%. Upon maturity or the earlier termination of the Letter of Credit Facilities, letters of credit that have been issued under the Letters of Credit Facilities remain outstanding with cash collateral in place through the respective expiration dates.

The agreements governing the Letter of Credit Facilities contain limits for the issuance of letters of credit ranging from \$5.0 million to \$10.0 million, for a combined letter of credit capacity of \$20.0 million, of which \$1.4 million was uncommitted at September 30, 2013 and could be withdrawn at any time. As of September 30, 2013, there was a total of \$15.5 million of letters of credit issued under the Letter of Credit Facilities, which was collateralized with \$15.8 million of restricted cash.

Notes Payable - Financial Services.

MIF Mortgage Warehousing Agreement. The MIF Mortgage Warehousing Agreement is used to finance eligible residential mortgage loans originated by M/I Financial. In March 2013, M/I Financial amended and restated the MIF Mortgage Warehousing Agreement, which, among other things, increased the maximum borrowing availability from \$70.0 million to \$80.0 million and provided for an accordion feature which allows for an increase of the maximum borrowing availability of up to an additional \$20.0 million (subject to certain conditions, including obtaining additional commitments from existing or new lenders), extended the expiration date to March 28, 2014, and increased the maximum principal amount permitted to be outstanding at any one time in aggregate under all warehouse credit lines from \$100.0 million to \$125.0 million. M/I Financial pays interest on each advance under the MIF Mortgage Warehousing Agreement at a per annum rate equal to the greater of (1) the floating LIBOR rate plus 275 basis points and (2) 3.50%. During the second quarter of 2013, M/I Financial exercised the accordion feature under the MIF Mortgage Warehousing Agreement to increase the amount of our maximum borrowing availability to \$100.0 million by obtaining \$20.0 million in additional bank commitments.

The MIF Mortgage Warehousing Agreement is secured by certain mortgage loans originated by M/I Financial and are “warehoused” prior to their sale to investors. The MIF Mortgage Warehousing Agreement provides for limits with respect to certain loan types that can secure outstanding borrowings. There are currently no guarantors of the MIF Mortgage Warehousing Agreement.

As of September 30, 2013, there was \$47.8 million outstanding under the MIF Mortgage Warehousing Agreement and M/I Financial was in compliance with all covenants. The financial covenants, as more fully described and defined in the MIF Mortgage Warehousing Agreement, are summarized in the following table, which also sets forth M/I Financial's compliance with such covenants as of September 30, 2013:

Financial Covenant	Covenant Requirement	Actual
	(Dollars in millions)	
Leverage Ratio	≤ 10.0 to 1.0	4.9 to 1.0
Liquidity	≥ \$5.0	\$14.7
Adjusted Net Income	> \$0.0	\$8.0
Tangible Net Worth	≥ \$10.0	\$13.6

MIF Mortgage Repurchase Facility. In November 2012, M/I Financial entered into the MIF Mortgage Repurchase Facility, an additional mortgage financing agreement structured as a mortgage repurchase facility with a maximum borrowing availability of \$15.0 million, to provide the Company with additional financing capacity.

The MIF Mortgage Repurchase Facility has an expiration date of November 12, 2013 and is used to finance eligible residential mortgage loans originated by M/I Financial. M/I Financial pays interest on each advance under the MIF Mortgage Repurchase Facility at a per annum rate equal to the floating LIBOR rate plus 350 or 412.5 basis points depending on the loan type. The covenants in the MIF Mortgage Repurchase Facility are substantially similar to the covenants in the MIF Mortgage Warehousing Agreement. The MIF Mortgage Repurchase Facility provides for limits with respect to certain loan types that can secure outstanding borrowings, which are similar to the restrictions in the MIF Mortgage Warehousing Agreement. There are currently no guarantors of the MIF Mortgage Repurchase Facility. As of September 30, 2013, there was \$7.8 million outstanding under the MIF Mortgage Repurchase Facility. M/I Financial was in compliance with all covenants as of September 30, 2013.

As is typical for similar credit facilities in the mortgage origination industry, at closing, the expiration of the MIF Mortgage Repurchase Facility was set at approximately one year and is under consideration for extension annually by the participating lenders. We expect to extend the MIF Mortgage Repurchase Facility on or prior to the current expiration date of November 12, 2013, but we cannot provide any assurance that we will be able to obtain such an extension.

Convertible Senior Subordinated Notes. In March 2013, the Company issued \$86.3 million aggregate principal amount of 2018 Convertible Senior Subordinated Notes. The 2018 Convertible Senior Subordinated Notes bear interest at a rate of 3.0% per year, payable semiannually in arrears on March 1 and September 1 of each year. The 2018 Convertible Senior Subordinated Notes mature on March 1, 2018. At any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2018 Convertible Senior Subordinated Notes into the Company's common shares. The conversion rate initially equals 30.9478 shares per \$1,000 of their principal amount. This corresponds to an initial conversion price of approximately \$32.31 per common share, which equates to approximately 2.7 million common shares. The conversion rate is subject to adjustment upon the occurrence of certain events. The 2018 Convertible Senior Subordinated Notes are fully and unconditionally guaranteed on a senior subordinated unsecured basis by those subsidiaries of the Company that are guarantors under the Company's 2018 Senior Notes and 2017 Convertible Senior Subordinated Notes. The 2018 Convertible Senior Subordinated Notes are senior subordinated unsecured obligations of the Company and the subsidiary guarantors and are subordinated in right of payment to our existing and future senior indebtedness and are also effectively subordinated to our existing and future secured indebtedness with respect to any assets comprising security or collateral for such indebtedness. The indenture governing the 2018 Convertible Senior Subordinated Notes provides that the Company may not redeem the 2018 Convertible Senior Subordinated Notes prior to March 6, 2016, but also contains provisions requiring the Company to repurchase the 2018 Convertible Senior Subordinated Notes (subject to certain exceptions), at a holder's option, upon the occurrence of a fundamental change (as defined in the indenture).

On or after March 6, 2016, the Company may redeem for cash any or all of the 2018 Convertible Senior Subordinated Notes (except for any 2018 Convertible Senior Subordinated Notes that the Company is required to repurchase in connection with a fundamental change), but only if the last reported sale price of the Company's common shares exceeds 130% of the applicable conversion price for the 2018 Convertible Senior Subordinated Notes on each of at least 20 applicable trading days. The 20 trading days do not need to be consecutive, but must occur during a period of 30 consecutive trading days that ends within 10 trading days immediately prior to the date the Company provides the notice of redemption. The redemption price for the 2018 Convertible Senior Subordinated Notes to be redeemed will equal 100% of the principal amount, plus accrued and unpaid interest, if any.

In September 2012, the Company issued \$57.5 million aggregate principal amount of 2017 Convertible Senior Subordinated Notes. The 2017 Convertible Senior Subordinated Notes bear interest at a rate of 3.25% per year, payable semiannually in arrears on March 15 and September 15 of each year. The 2017 Convertible Senior Subordinated Notes mature on September 15, 2017. At any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2017 Convertible Senior Subordinated Notes into the Company's common shares. The conversion rate initially equals 42.0159 shares per \$1,000 of principal amount. This corresponds to an initial conversion price of approximately \$23.80 per common share which equates to approximately 2.4 million common shares. The conversion rate is subject to adjustment upon the occurrence of certain events. The 2017 Convertible Senior Subordinated Notes are fully and unconditionally guaranteed on a senior subordinated unsecured basis by those subsidiaries of the Company that are guarantors under the Company's 2018 Senior Notes and the 2018 Convertible Senior Subordinated Notes. The 2017 Convertible Senior Subordinated Notes are senior subordinated unsecured obligations of the Company and the subsidiary guarantors and are be subordinated in right of payment to our existing and future senior indebtedness. The 2017 Convertible Senior Subordinated Notes are also effectively subordinated to our existing and future secured indebtedness with respect to any assets comprising security or collateral for such indebtedness. The indenture governing the 2017 Convertible Senior Subordinated Notes provides that the Company may not redeem the notes prior to their stated maturity date, but also contains provisions requiring the Company to repurchase the 2017 Convertible Senior Subordinated Notes (subject to certain exceptions), at a holder's option, upon the occurrence of a fundamental change (as defined in the indenture).

Senior Notes. In November 2010, the Company issued \$200 million aggregate principal amount of 2018 Senior Notes. In May 2012, we issued an additional \$30 million of 2018 Senior Notes under our 2018 Senior Notes indenture for a total outstanding balance of \$230 million.

The 2018 Senior Notes bear interest at a rate of 8.625% per year, payable semi-annually in arrears on May 15 and November 15 of each year, and mature on November 15, 2018. The 2018 Senior Notes are fully and unconditionally guaranteed jointly and severally by all of our subsidiaries, with the exception of subsidiaries that are primarily engaged in the business of mortgage financing, title insurance or similar financial businesses relating to the homebuilding and home sales business, certain subsidiaries that are not 100%-owned by the Company or another subsidiary, and other subsidiaries designated by the Company as Unrestricted Subsidiaries in accordance with the terms of the indenture governing the 2018 Senior Notes. The guarantors as of September 30, 2013 for the 2018 Senior Notes are the same subsidiaries that guarantee the Company's obligations under the Credit Facility, the 2017 Convertible Senior Subordinated Notes, and the 2018 Convertible Senior Subordinated Notes. The 2018 Senior Notes and the related guarantees are general, unsecured senior obligations of the Company and the subsidiary guarantors and rank equally in right of payment with all our existing and future unsecured senior indebtedness. The 2018 Senior Notes are effectively

subordinated to our existing and future secured indebtedness with respect to any assets comprising security or collateral for such indebtedness.

Certain covenants are set forth in the indenture governing the 2018 Senior Notes. The covenants, as more fully described and defined in the indenture, limit the ability of the Company and the restricted subsidiaries to, among other things: incur additional indebtedness; make certain payments, including dividends, or repurchase any shares, in an aggregate amount exceeding our “restricted payments basket,” as defined in the indenture; make Investments in other entities, in the form of capital contributions or loans or purchases of securities, in an aggregate amount exceeding our “restricted payments basket,” except for certain Permitted Investments; and create or incur liens (other than Permitted Liens), consolidate or merge with or into other companies, or liquidate or sell or transfer all or substantially all of our assets.

These covenants are subject to a number of exceptions and qualifications as described in the indenture governing the 2018 Senior Notes. As of September 30, 2013, the Company was in compliance with all terms, conditions, and financial covenants under the indenture.

The “restricted payments basket,” as defined in the indenture, is equal to \$40 million (1) plus 50% of our aggregate consolidated net income (or minus 100% of our aggregate consolidated net loss) since October 1, 2010 and excluding the income or loss from Unrestricted Subsidiaries, plus (2) 100% of the net cash proceeds from the sale of qualified equity interests, plus other items and subject to other exceptions. At September 30, 2013, our restricted payments basket had a positive balance of \$127.5 million. We are permitted to make Investments (in addition to Permitted Investments) and/or to pay dividends on, and repurchase, our common shares and Series A Preferred Shares to the extent of such positive balance.

The increase in the balance of our restricted payments basket from the second quarter of 2013 was primarily due to the net income of our Restricted Subsidiaries during the third quarter of 2013, offset partially by a \$1.2 million dividend payment made on our outstanding Series A Preferred Shares on September 16, 2013. See “Preferred Shares” below for more information.

Weighted Average Borrowings. For the three months ended September 30, 2013 and 2012, our weighted average borrowings outstanding were \$396.8 million and \$294.7 million, respectively, with a weighted average interest rate of 7.51% and 8.83%, respectively. For the nine months ended September 30, 2013 and 2012, our weighted average borrowings outstanding were \$387.2 million and \$279.1 million, respectively, with a weighted average interest rate of 7.67% and 9.01%, respectively. The increase in borrowings was primarily the result of the issuance of the \$57.5 million aggregate principal amount of 2017 Convertible Senior Subordinated Notes in the third quarter of 2012 and the issuance of the \$86.3 million aggregate principal amount of 2018 Convertible Senior Subordinated Notes in the first quarter of 2013. Our rate decreased primarily due to the addition of our two convertible debt issuances, which have significantly lower interest rates compared to our debt outstanding in the same periods in 2012.

At September 30, 2013, we had no outstanding borrowings under the Credit Facility nor did we borrow under the Credit Facility or the Prior Facility during the nine months ended September 30, 2013. We do not expect to incur borrowings under the Credit Facility for the remainder of 2013. The actual amount borrowed will depend on various factors, including the timing and amount of land and house construction expenditures, payroll and other general and administrative expenses, and cash receipts from home closings, as well as other cash receipts and payments. We experience significant variation in cash from week to week due to the timing of such receipts and payments. The amount borrowed would also be impacted by any capital markets transactions or additional financing executed by the Company during the quarter, if any.

There were \$13.9 million of letters of credit issued and outstanding under the Credit Facility at September 30, 2013. During the nine months ended September 30, 2013, the average daily amount of letters of credit outstanding under the Credit Facility was \$15.2 million and the maximum amount of letters of credit outstanding under the Credit Facility was \$17.3 million.

At September 30, 2013, M/I Financial had \$47.8 million outstanding under the MIF Mortgage Warehousing Agreement. During the nine months ended September 30, 2013, the average daily amount outstanding under the MIF Mortgage Warehousing Agreement was \$21.0 million and the maximum amount outstanding was \$61.3 million.

At September 30, 2013, M/I Financial had \$7.8 million outstanding under the MIF Mortgage Repurchase Facility. During the nine months ended September 30, 2013, the average daily amount outstanding under the MIF Mortgage Repurchase Facility was \$5.3 million and the maximum amount outstanding was \$14.5 million.

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

a liquidation preference equal to \$25 per depositary share (plus an amount equal to all accrued and unpaid dividends (whether or not earned or declared) for the then current quarterly dividend period accrued to but excluding the date of final distribution). Dividends on the Series A Preferred Shares are non-cumulative and, if declared by us, are paid at an annual rate of 9.75%. Dividends are payable quarterly in arrears, if declared by us, on March 15, June 15, September 15 and December 15. If there is a change of control of the Company and if the Company's corporate credit rating is withdrawn or downgraded to a certain level (together constituting a "change of control event"), the dividends on the Series A Preferred Shares will increase to 10.75% per year. We may redeem the Series A Preferred Shares in whole or in part (provided, that any redemption that would reduce the aggregate liquidation preference of the Series A Preferred Shares below \$25 million in the aggregate would be restricted to a redemption in whole only) at any time or from time to time at a cash redemption price equal to \$25 per depositary share (plus an amount equal to all accrued and unpaid dividends (whether or not earned or declared) for the then current quarterly dividend period accrued to but excluding the redemption date). Holders of the Series A Preferred Shares have no right to require redemption of the Series A Preferred Shares. The Series A Preferred Shares have no stated maturity, are not subject to any sinking fund provisions, are not convertible into any other securities, and will remain outstanding indefinitely unless redeemed by us. Holders of the Series A Preferred Shares have no voting rights, except with respect to those specified matters set forth in the Company's Amended and Restated Articles of Incorporation or as otherwise required by applicable Ohio law, and no preemptive rights. The outstanding depositary shares are listed on the New York Stock Exchange under the trading symbol "MHO-PrA." There is no separate public trading market for the Series A Preferred Shares except as represented by the depositary shares.

The indenture governing our 2018 Senior Notes limits our ability to pay dividends on, and repurchase, our common shares and Series A Preferred Shares to the amount of the positive balance in our "restricted payments basket," as defined in the indenture. The restricted payments basket was \$127.5 million at September 30, 2013. We are permitted by the indenture to pay dividends on, and repurchase, our common shares and Series A Preferred Shares to the extent of such positive balance in our restricted payments basket.

On April 10, 2013, we redeemed 2,000 of our outstanding Series A Preferred Shares for \$50.4 million of cash.

During the third quarter of 2013, we paid a quarterly dividend in an aggregate amount of \$1.2 million on our Series A Preferred Shares for the third quarter of 2013 on September 16, 2013 to holders of record as of September 1, 2013.

The determination to pay future dividends on, or make future repurchases of, our common shares or Series A Preferred Shares will be at the discretion of our board of directors and will depend upon our results of operations, financial condition, capital requirements and compliance with debt covenants and the terms of our Series A Preferred Shares, and other factors deemed relevant by our board of directors.

CONTRACTUAL OBLIGATIONS

There have been no material changes to our contractual obligations appearing in the Contractual Obligations section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2012, except for our new Credit Facility entered into on July 18, 2013 and our 2018 Convertible Senior Subordinated Notes, both described above in the "Liquidity and Capital Resources" section.

OFF-BALANCE SHEET ARRANGEMENTS

Our off-balance sheet arrangements relating to our homebuilding operations include unconsolidated joint ventures, land option agreements, guarantees and indemnifications associated with acquiring and developing land, and the issuance of letters of credit and completion bonds. Our use of these arrangements is for the purpose of securing the

most desirable lots on which to build homes for our homebuyers in a manner that we believe reduces the overall risk to the Company. Additionally, in the ordinary course of its business, our financial services operations issue guarantees and indemnities relating to the sale of loans to third parties.

Unconsolidated Joint Ventures and Variable Interest Entities. In order to minimize our investment and risk of land exposure in a single location, we have periodically partnered with other land developers or homebuilders to share in the land investment and development of a property through joint ownership and development agreements, joint ventures, and other similar arrangements. We believe that the Company's maximum exposure related to its investment in these joint venture arrangements as of September 30, 2013 is the total amount invested of \$34.1 million, which is reported as Investment in Unconsolidated Joint Ventures on our Unaudited Condensed Consolidated Balance Sheets, in addition to a \$2.5 million note due to the Company from one of the unconsolidated joint ventures (reported in Other Assets). We expect to invest further amounts in these joint venture arrangements as development of the properties progresses.

For joint venture arrangements where a special purpose entity is established to own the property, we generally enter into limited liability company or similar arrangements (“LLCs”) with the other partners. The Company's ownership in these LLCs as of September 30, 2013 ranged from 25% to 61%. These entities typically engage in land development activities for the purpose of distributing or selling developed lots to the Company and its partners in the LLC. With respect to our investments in these LLCs, we are required to evaluate whether or not such entities should be consolidated into our financial statements. We initially perform these evaluations when each new entity is created and upon any events that require reconsideration of the entity. In order to determine if we should consolidate an LLC, we determine (1) if the LLC is a Variable Interest Entity (“VIE”) and (2) if we are the primary beneficiary of the entity. To determine whether we are the primary beneficiary of an entity, we consider whether we have the ability to control the activities of the VIE that most significantly impact its economic performance. This analysis considers, among other things, whether we have the ability to determine the budget and scope of land development work, if any; the ability to control financing decisions for the VIE; the ability to acquire additional land into the VIE or dispose of land in the VIE not under contract with M/I Homes; and the ability to change or amend the existing option contract with the VIE. If it is determined we are not able to control such activities, we are not considered the primary beneficiary of the VIE.

As of September 30, 2013, we have determined that one of the LLCs in which we have an interest meets the requirements of a VIE due to a lack of equity at risk in the entity. However, we have determined that we do not have substantive control over any of these entities, including our VIE, as we do not have the ability to control the activities that most significantly impact their economic performance. As a result, none of these LLCs are required to be consolidated into our financial statements and the entities are instead recorded in Investment in Unconsolidated Joint Ventures on our Unaudited Condensed Consolidated Balance Sheets.

Land Option Agreements. In the ordinary course of business, the Company enters into land option agreements in order to secure land for the construction of homes in the future. Pursuant to these land option agreements, the Company typically provides a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices. Because the entities holding the land under the option agreement may meet the criteria for VIEs, the Company evaluates all land option agreements to determine if it is necessary to consolidate any of these entities.

At September 30, 2013, “Consolidated Inventory Not Owned” was \$1.6 million, all of which related to specific performance obligations. At September 30, 2013, the corresponding liability of \$1.6 million has been classified as Obligation for Consolidated Inventory Not Owned on our Unaudited Condensed Consolidated Balance Sheets.

Other than the Consolidated Inventory Not Owned balance, the Company currently believes that its maximum exposure as of September 30, 2013 related to its land option agreements is equal to the amount of the Company's outstanding deposits and prepaid acquisition costs, which totaled \$26.0 million, including cash deposits of \$13.4 million, prepaid acquisition costs of \$4.2 million and letters of credit of \$8.4 million.

Letters of Credit and Completion Bonds. The Company provides standby letters of credit and completion bonds for development work in progress, deposits on land and lot purchase agreements and miscellaneous deposits. As of September 30, 2013, the Company had outstanding \$91.8 million of completion bonds and standby letters of credit, some of which were issued to various local governmental entities, that expire at various times through October 2018. Included in this total are: (1) \$59.2 million of performance bonds and \$13.6 million of performance letters of credit that serve as completion bonds for land development work in progress; (2) \$15.8 million of financial letters of credit; and (3) \$3.2 million of financial bonds. The development agreements under which we are required to provide completion bonds or letters of credit are generally not subject to a required completion date and only require that the improvements are in place in phases as houses are built and sold. In locations where development has progressed, the amount of development work remaining to be completed is typically less than the remaining amount of bonds or letters of credit due to timing delays in obtaining release of the bonds or letters of credit.

Guarantees and Indemnities. In the ordinary course of business, M/I Financial enters into agreements that guarantee purchasers of its mortgage loans that M/I Financial will repurchase a loan if certain conditions occur. The risks associated with these guarantees are offset by the value of the underlying assets, and the Company accrues its best estimate of the probable loss on these loans. Additionally, the Company has provided certain other guarantees and indemnities in connection with the acquisition and development of land by our homebuilding operations. Refer to Note 6 of our Unaudited Condensed Consolidated Financial Statements for additional details relating to our guarantees and indemnities.

INTEREST RATES AND INFLATION

Our business is significantly affected by general economic conditions within the United States and, particularly, by the impact of interest rates and inflation. Inflation can have a long-term impact on us because increasing costs of land, materials and labor can

result in a need to increase the sales prices of homes. In addition, inflation is often accompanied by higher interest rates, which can have a negative impact on housing demand and the costs of financing land development activities and housing construction. Higher interest rates also may decrease our potential market by making it more difficult for homebuyers to qualify for mortgages or to obtain mortgages at interest rates that are acceptable to them. The impact of increased rates can be offset, in part, by offering variable rate loans with lower interest rates. In conjunction with our mortgage financing services, hedging methods are used to reduce our exposure to interest rate fluctuations between the commitment date of the loan and the time the loan closes. Rising interest rates, as well as increased materials and labor costs, may reduce gross margins. An increase in material and labor costs is particularly a problem during a period of declining home prices. Conversely, deflation can impact the value of real estate and make it difficult for us to recover our land costs. Therefore, either inflation or deflation could adversely impact our future results of operations.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk results from fluctuations in interest rates. We are exposed to interest rate risk through borrowings under our revolving credit and mortgage repurchase facilities, consisting of the Credit Facility, the MIF Mortgage Warehousing Agreement, and the MIF Mortgage Repurchase Facility which permit borrowings of up to \$315 million, subject to availability constraints. Additionally, M/I Financial is exposed to interest rate risk associated with its mortgage loan origination services.

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

Some IRLCs are committed to a specific third party investor through the use of best-efforts whole loan delivery commitments matching the exact terms of the IRLC loan. Uncommitted IRLCs are considered derivative instruments and are fair value adjusted, with the resulting gain or loss recorded in current earnings.

Forward Sales of Mortgage-Backed Securities: Forward sales of mortgage-backed securities (“FMBSs”) are used to protect uncommitted IRLC loans against the risk of changes in interest rates between the lock date and the funding date. FMBSs related to uncommitted IRLCs are classified and accounted for as non-designated derivative instruments and are recorded at fair value, with gains and losses recorded in current earnings.

Mortgage Loans Held for Sale: Mortgage loans held for sale consist primarily of single-family residential loans collateralized by the underlying property. During the intervening period between when a loan is closed and when it is sold to an investor, the interest rate risk is covered through the use of a best-efforts contract or by FMBSs. The FMBSs are classified and accounted for as non-designated derivative instruments, with gains and losses recorded in current earnings.

The table below shows the notional amounts of our financial instruments at September 30, 2013 and December 31, 2012:

Description of financial instrument (in thousands)	September 30, 2013	December 31, 2012
Best-effort contracts and related committed IRLCs	\$4,417	\$1,184
Uncommitted IRLCs	79,594	25,854
FMBSs related to uncommitted IRLCs	80,000	26,000
Best-effort contracts and related mortgage loans held for sale	3,025	25,441
FMBSs related to mortgage loans held for sale	55,000	44,000
Mortgage loans held for sale covered by FMBSs	54,720	44,524

The table below shows the measurement of assets and liabilities at September 30, 2013 and December 31, 2012:

Description of Financial Instrument (in thousands)	September 30, 2013	December 31, 2012
Mortgage loans held for sale	\$60,388	\$71,121
Forward sales of mortgage-backed securities	(1,971	) 253
Interest rate lock commitments	942	1
Best-efforts contracts	(179) (3
Total	\$59,180	\$71,372

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The following table sets forth the amount of loss recognized on assets and liabilities for the three months ended September 30, 2013 and 2012:

Description (in thousands)	Three Months Ended September 30,	
	2013	2012
Mortgage loans held for sale	\$3,365	\$328
Forward sales of mortgage-backed securities	(5,262)	(838)
Interest rate lock commitments	1,677	341
Best-efforts contracts	(193)	(84)
Total loss recognized	\$(413)	\$(253)

The following table provides the expected future cash flows and current fair values of borrowings under our credit facilities and mortgage loan origination services that are subject to market risk as interest rates fluctuate, as of September 30, 2013:

(Dollars in thousands)	Expected Cash Flows by Period						Total	Fair Value 9/30/2013
	2013	2014	2015	2016	2017	Thereafter		
ASSETS:								
Mortgage loans held for sale:								
Fixed rate	\$59,589	\$—	\$—	\$—	\$—	\$—	\$59,589	\$59,009
Weighted average interest rate	4.35	% —	% —	% —	% —	% —	% 4.35	%
Variable rate	1,369	—	—	—	—	—	1,369	1,379
Weighted average interest rate	3.22	% —	% —	% —	% —	% —	% 3.22	%
LIABILITIES:								
Long-term debt — fixed rate	\$—	\$—	\$—	\$—	\$57,500	\$316,250	\$373,750	\$399,409
Weighted average interest rate	—	% —	% —	% —	% 3.25	% 7.09	% 6.50	%
Short-term debt — variable rate	55,614	—	—	—	—	—	55,614	55,614
Weighted average interest rate	3.53	% —	% —	% —	% —	% —	% 3.53	%

ITEM 4: CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes to the risk factors appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, as updated by our Quarterly Reports on Form 10-Q for the three months ended March 31, 2013 and June 30, 2013.

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

(a) Recent Sales of Unregistered Securities — None.

(b) Use of Proceeds — Not Applicable.

(c) Purchases of Equity Securities

There were no purchases made by, or on behalf of, the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of the Company's common shares or Series A Preferred Shares during the three months ended September 30, 2013.

See Note 9 to our Unaudited Condensed Consolidated Financial Statements and the "Liquidity and Capital Resources" section above for more information regarding the limit imposed by the indenture governing our 2018 Senior Notes on our ability to pay dividends on, and repurchase, our common shares and Series A Preferred Shares to the amount of

the positive balance in our “restricted payments basket,” as defined in the indenture.

Item 3. Defaults Upon Senior Securities - None.

Item 4. Mine Safety Disclosures - None.

Item 5. Other Information - None.

Item 6. Exhibits

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

Exhibit Number	Description
10.1	Fourth Amendment to Letter of Credit Agreement between M/I Homes, Inc. and Regions Bank (Filed herewith).
10.2	Fourth Amended and Restated Master Letter of Credit Facility Agreement between M/I Homes, Inc. and U.S. Bank National Association (Filed herewith).
10.3	Surrender of Policy and Termination of Agreement with Respect to Collateral Assignment Split-Dollar Agreement (Filed herewith).
31.1	Certification by Robert H. Schottenstein, Chief Executive Officer, pursuant to Item 601 of Regulation S-K as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
31.2	Certification by Phillip G. Creek, Chief Financial Officer, pursuant to Item 601 of Regulation S-K as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
32.1	Certification by Robert H. Schottenstein, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
32.2	Certification by Phillip G. Creek, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
101.INS	XBRL Instance Document. (Furnished herewith.)
101.SCH	XBRL Taxonomy Extension Schema Document. (Furnished herewith.)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document. (Furnished herewith.)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document. (Furnished herewith.)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document. (Furnished herewith.)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. (Furnished herewith.)

SIGNATURES

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

M/I Homes, Inc.
(Registrant)

Date: October 25, 2013

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

Date: October 25, 2013

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

EXHIBIT INDEX

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