M I HOMES INC
Form 10-Q
November 08, 2007

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2007

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-12434

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

Ohio	**31-1210837**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer IdentificationNo.)

3 Easton Oval, Suite 500, Columbus, Ohio 43219
(Address of principal executive offices) (Zip Code)

(614) 418-8000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one.):

Large accelerated filer	Accelerated filer X	Non-accelerated filer

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: 14,061,653 shares outstanding as of October 31, 2007

M/I HOMES, INC.
FORM 10-Q

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

(Dollars in thousands, except par values)	**September 30, 2007 (Unaudited)**	December 31, 2006
ASSETS:		
Cash	**$ 2,485**	$ 11,516
Cash held in escrow	**18,780**	58,975
Mortgage loans held for sale	**33,080**	58,305
Inventories	**1,110,669**	1,184,358
Property and equipment - net	**36,797**	36,258
Investment in unconsolidated limited liability companies	**42,725**	49,648
Deferred income taxes	**73,149**	39,723
Other assets	**36,695**	38,296
TOTAL ASSETS	**$ 1,354,380**	$ 1,477,079
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable	**$ 100,395**	$ 81,200
Accrued compensation	**7,830**	22,777
Customer deposits	**14,609**	19,414
Other liabilities	**67,009**	66,533
Community development district obligations	**22,963**	19,577
Obligation for consolidated inventory not owned	**7,373**	5,026
Notes payable banks - homebuilding operations	**255,000**	410,000
Note payable bank - financial services operations	**21,700**	29,900
Mortgage notes payable	**6,765**	6,944
Senior notes – net of discount of $1,152 and $1,344, respectively, at September 30, 2007 and December 31, 2006	**198,848**	198,656
TOTAL LIABILITIES	**702,492**	860,027
Commitments and contingencies	**-**	-
SHAREHOLDERS' EQUITY:		
Preferred shares - $.01 par value; authorized 2,000,000 shares; issued 4,000 and -0- shares, respectively, at September 30, 2007 and December 31, 2006	**96,325**	-
Common shares - $.01 par value; authorized 38,000,000 shares; issued 17,626,123 shares	**176**	176
Additional paid-in capital	**77,723**	76,282
Retained earnings	**548,587**	614,186
Treasury shares – at cost – 3,570,993 and 3,705,375 shares, respectively, at September 30, 2007 and December 31, 2006	**(70,923)**	(73,592)
TOTAL SHAREHOLDERS' EQUITY	**651,888**	617,052

TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	**$ 1,354,380**	$ 1,477,079

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2007	2006	**2007**	2006
(In thousands, except per share amounts)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue	**$ 243,668**	$ 306,188	**$ 703,774**	$ 877,037
Costs and expenses:				
Land and housing	**196,019**	231,112	**556,841**	645,286
Impairment of inventory and investment in unconsolidated limited liability companies	**32,334**	1,921	**99,539**	1,921
General and administrative	**24,648**	25,052	**73,486**	74,609
Selling	**20,605**	21,645	**58,206**	65,510
Interest	**5,014**	3,578	**12,280**	10,930
Total costs and expenses	**278,620**	283,308	**800,352**	798,256
(Loss) income before income taxes	**(34,952)**	22,880	**(96,578)**	78,781
Income tax (benefit) provision	**(13,235)**	7,695	**(36,912)**	28,937
Net (loss) income	**(21,717)**	15,185	**(59,666)**	49,844
Less: preferred share dividends	**2,437**	-	**4,875**	-
Net (loss) income available to common shareholders	**$ (24,154)**	$ 15,185	**$ (64,541)**	$ 49,844
(Loss) earnings per common share:				
Basic	**$ (1.73)**	$ 1.09	**$ (4.62)**	$ 3.56
Diluted	**$ (1.73)**	$ 1.08	**$ (4.62)**	$ 3.51
Weighted average common shares outstanding:				
Basic	**13,990**	13,892	**13,969**	13,991
Diluted	**13,990**	14,078	**13,969**	14,187
Dividends per common share	**$ 0.025**	$ 0.025	**$ 0.075**	$ 0.075

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

Nine Months Ended September 30, 2007 (Unaudited)

(Dollars in thousands, except per share amounts)	Preferred Shares Shares Outstanding	Preferred Shares Amount	Common Shares Shares Outstanding	Common Shares Amount	Additional Paid-in Capital	Retained Earnings	Treasury Shares	Total Shareholders' Equity
Balance at December 31, 2006			13,920,748	$176	$76,282	$614,186	$(73,592)	$617,052
Net loss						(59,666)		(59,666)
Preferred shares issued, net of issuance costs of $3,675	4,000	$96,325						96,325
Dividends to shareholders, $1,218.75 per preferred share						(4,875)		(4,875)
Dividends to shareholders, $0.075 per common share						(1,058)		(1,058)
Income tax benefit from stock options and deferred compensation distributions					138			138
Stock options exercised			37,400		65		743	808
Restricted shares issued, net of forfeitures			61,299		(1,217)		1,217	-
Stock-based compensation expense					2,452			2,452
Deferral of executive and director compensation					712			712
Executive and director deferred compensation distributions			35,683		(709)		709	-
Balance at September 30, 2007	**4,000**	**$96,325**	**14,055,130**	**$176**	**$77,723**	**$548,587**	**$(70,923)**	**$651,888**

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2007	2006
(In thousands)	**(Unaudited)**	(Unaudited)
OPERATING ACTIVITIES:		
Net (loss) income	**$ (59,666)**	$ 49,844
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Inventory valuation adjustments and abandoned land transaction write-offs	**92,068**	5,901
Impairment of investment in unconsolidated limited liability companies	**8,811**	-
Impairment of goodwill and intangible assets	**5,175**	-
Mortgage loan originations	**(381,607)**	(427,705)
Proceeds from the sale of mortgage loans	**406,530**	459,372
Fair value adjustment of mortgage loans held for sale	**302**	(166)
Loss from property disposals	**84**	106
Depreciation	**4,091**	2,715
Amortization of intangibles, debt discount and debt issuance costs	**1,682**	2,094
Stock-based compensation expense	**2,452**	2,370
Deferred income tax (benefit) expense	**(33,425)**	740
Excess tax benefits from stock-based payment arrangements	**(138)**	(123)
Equity in undistributed loss (income) of limited liability companies	**916**	44
Write-off of unamortized debt issuance costs	**534**	-
Change in assets and liabilities:		
Cash held in escrow	**40,195**	9,066
Inventories	**(8,554)**	(302,924)
Other assets	**(5,752)**	(2,748)
Accounts payable	**19,195**	48,685
Customer deposits	**(4,805)**	(2,853)
Accrued compensation	**(14,235)**	(8,906)
Other liabilities	**(131)**	(17,521)
Net cash provided by (used in) operating activities	**73,722**	(182,009)
INVESTING ACTIVITIES:		
Purchase of property and equipment	**(3,852)**	(5,043)
Investment in unconsolidated limited liability companies	**(5,718)**	(12,118)
Return of investment from unconsolidated limited liability companies	**578**	17
Net cash used in investing activities	**(8,992)**	(17,144)
FINANCING ACTIVITIES:		
Net (repayments of) proceeds from bank borrowings	**(163,200)**	196,700
Principal repayments of mortgage notes payable and community development district bond obligations	**(340)**	(1,122)
Proceeds from preferred shares issuance – net of issuance costs of $3,675	**96,325**	-
Debt issuance costs	**(847)**	(27)
Payments on capital lease obligations	**(712)**	-
Dividends paid	**(5,933)**	(1,065)
Proceeds from exercise of stock options	**808**	65
Excess tax benefits from stock-based payment arrangements	**138**	123

Common share repurchases	**-**	(17,893)
Net cash (used in) provided by financing activities	**(73,761)**	176,781
Net decrease in cash	**(9,031)**	(22,372)
Cash balance at beginning of period	**11,516**	25,085
Cash balance at end of period	**$ 2,485**	$ 2,713
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest – net of amount capitalized	**$ 7,853**	$ 7,044
Income taxes	**$ 10,180**	$ 47,384
NON-CASH TRANSACTIONS DURING THE YEAR:		
Community development district infrastructure	**$ 3,547**	$ 11,772
Consolidated inventory not owned	**$ 2,347**	$ 945
Capital lease obligations	**$ 1,457**	$ -
Distribution of single-family lots from unconsolidated limited liability companies	**$ 5,560**	$ 12,303
Contribution of property to unconsolidated limited liability companies	**$ 958**	$ -
Deferral of executive and director compensation	**$ 712**	$ 913
Executive and director deferred compensation distributions	**$ 709**	$ 512

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

NOTE 1. Basis of Presentation

The accompanying Unaudited Condensed Consolidated Financial Statements (the "financial statements") of M/I Homes, Inc. and its subsidiaries (the "Company") and notes thereto have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("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, 2006 (the "2006 Form 10-K").

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during that period. Actual results could differ from these estimates and have a significant impact on the financial condition and results of operations and cash flows. With regard to the Company, estimates and assumptions are inherent in calculations relating to valuation of inventory and investment in unconsolidated limited liability companies ("LLCs"), property and equipment depreciation, valuation of derivative financial instruments, accounts payable on inventory, accruals for costs to complete, 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 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Factors" in Part I of this report, in "Item 1A. Risk Factors" in Part II of this report and in "Item 1A. Risk Factors" in Part I of our 2006 Form 10-K.

NOTE 2. Impact of Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value by clarifying the exchange price notion presented in earlier definitions and providing a framework for measuring fair value. SFAS 157 also expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those years. The Company is in the process of determining the impact the adoption of SFAS 157 will have on its financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 allows companies to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 also provides presentation and disclosure requirements that will enable users to compare similar types of assets and liabilities of different entities that have different measurement attributes. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted, provided that the entity also adopts SFAS 157 early. The Company is in the process of determining the impact the adoption of SFAS 159 will have on its financial statements.

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NOTE 3. Inventory

A summary of the Company's inventory as of September 30, 2007 and December 31, 2006 is as follows:

(In thousands)	**September 30, 2007**	December 31, 2006
Single-family lots, land and land development costs	**$ 583,197**	$ 782,621
Land held for sale	**72,592**	21,803
Homes under construction	**407,293**	347,126
Model homes and furnishings - at cost (less accumulated depreciation: September 30, 2007 - $1,148; December 31, 2006 - $281)	**14,470**	5,522
Community development district infrastructure (Note 11)	**22,143**	18,525
Land purchase deposits	**4,899**	3,735
Consolidated inventory not owned (Note 12)	**6,075**	5,026
Total inventory	**$ 1,110,669**	$ 1,184,358

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 have not yet been used to start construction of a home.

Land held for sale includes land that meets all of the following criteria, as defined in SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"): (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. In accordance with SFAS 144, the Company records land held for sale at the lower of its carrying value or fair value less costs to sell. During the third quarter of 2007, the Company reclassified $5.5 million of land from land held for sale to single-family lots, land and land development costs because the criteria for classification as land held for sale were no longer met.

Homes under construction include homes that are finished and ready for delivery and homes in various stages of construction. As of September 30, 2007 and December 31, 2006, we had 584 homes (valued at $101.3 million) and 717 homes (valued at $130.8 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 inventories for recoverability in accordance with the provisions of SFAS 144, which requires that long-lived assets be reviewed for impairment whenever events or changes in local or national economic conditions indicate that the carrying amount of an asset may not be recoverable. Refer to Note 4 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 relating to such agreement. For the three and nine months ended September 30, 2007, the Company wrote off $0.3 million and $2.2 million, respectively, in option deposits and pre-acquisition costs. Refer to Note 4 for additional details relating to write-offs of land option deposits and pre-acquisition costs.

NOTE 4. Valuation Adjustments and Write-offs

The Company assesses inventories for recoverability in accordance with the provisions of SFAS 144, which requires that long-lived assets be reviewed for impairment whenever events or changes in local or national economic conditions indicate that the carrying amount of an asset may not be recoverable.

Operating communities. For existing operating communities, the recoverability of assets is measured by comparing the carrying amount of the assets to future undiscounted 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 and the estimated land development and home construction and selling costs of the community.

The carrying value of the nine operating communities that were impaired during the three month period ending September 30, 2007, net of impairment charges and write-offs of $17.6 million, was $56.8 million at September 30, 2007.

Future communities. For raw land or land under development that management anticipates will be utilized for future homebuilding activities, the recoverability of assets is measured by comparing the carrying amount of the assets to 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 above in Note 3, the recoverability of the assets is determined based on either the estimated net sales proceeds expected to be realized on the sale of the assets,or the estimated fair value determined using cash flow valuation techniques.

If the Company has not yet determined whether raw land or land under development will be utilized for future homebuilding activities or marketed for sale to a third party, the Company assesses the recoverability of the inventory using a probability-weighted approach, in accordance with SFAS 144.

The carrying value of the two future communities that were impaired during the three month period ending September 30, 2007, net of impairment charges and write-offs of $0.9 million, was $4.2 million at September 30, 2007.

Land held for sale. Land held for sale includes land that meets the six criteria defined in SFAS 144, as further discussed above in Note 3. In accordance with SFAS 144, the Company records land held for sale at the lower of its carrying value or fair value less costs to sell. Fair value is determined based on the expected third party sale proceeds.

The carrying value of the nine properties included in land held for sale that were impaired during the three month period ending September 30, 2007, net of impairment charges and write-offs of $7.7 million, was $37.7 million at September 30, 2007.

Investments in unconsolidated limited liability companies. The Company assesses investments in unconsolidated limited liability companies ("LLCs") for impairment in accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock" ("APB 18") and SEC Staff Accounting Bulletin Topic 5.M, "Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities" ("SAB Topic 5M"). When evaluating the LLCs, if the fair value of the investment is less than the investment carrying value, and the Company determines the decline in value is other than temporary, the Company would write down the investment to fair value. The Company's LLCs engage in land acquisition and development activities for the purpose of selling or

distributing (in the form of a capital distribution) developed lots to the Company and its partners in the entity, as further discussed in Note 8.

The investment value of the LLCs that were impaired during the three month period ending September 30, 2007, net of impairment charges and write-offs of $6.1 million, was $7.2 million at September 30, 2007.

A summary of the Company's valuation adjustments and write-offs for the three and nine months ended September 30, 2007 and 2006 is as follows:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(In thousands)	**2007**	2006	**2007**	2006
Impairment of operating communities:				
Midwest	**$ 453**	-	**$ 5,816**	-
Florida	**11,739**	-	**27,243**	-
Mid-Atlantic	**5,437**	-	**26,854**	-
Total impairment of operating communities (a)	**$ 17,629**	-	**$ 59,913**	-
Impairment of future communities:				
Midwest	**$ -**	-	**$ 1,526**	-
Florida	**-**	-	**11,948**	-
Mid-Atlantic	**905**	-	**6,923**	-
Total impairment of future communities (a)	**$ 905**	-	**$ 20,397**	-
Impairment of land held for sale:				
Midwest	**$ -**	$ 1,921	**$ -**	$ 1,921
Florida	**7,398**	-	**9,840**	-
Mid-Atlantic	**322**	-	**578**	-
Total impairment of land held for sale (a)	**$ 7,720**	$ 1,921	**$ 10,418**	$ 1,921
Option deposits and pre-acquisition costs write-offs:				
Midwest	**$ 269**	$ 1,730	**$ 291**	$ 1,976
Florida (b)	**-**	28	**1,828**	1,494
Mid-Atlantic	**-**	272	**46**	510
Total option deposits and pre-acquisition costs write-offs (c)	**$ 269**	$ 2,030	**$ 2,165**	$ 3,980
Impairment of investments in unconsolidated LLCs:				
Midwest	**$ -**	-	**$ -**	-
Florida	**6,080**	-	**8,811**	-
Mid-Atlantic	**-**	-	**-**	-
Total impairment of investments in unconsolidated LLCs (a)	**$ 6,080**	-	**$ 8,811**	-
Total impairments and write-offs of option deposits and pre-acquisition costs	**$ 32,603**	$ 3,951	**$ 101,704**	$ 5,901

(a) Amounts are recorded within Impairment of Inventory and Investment in Unconsolidated Limited Liability Companies in the Company's Unaudited Condensed Consolidated Statement of Operations.

(b) Includes the Company's $0.8 million share of the write-off of an option deposit in the nine month period of 2007 that is included in Equity in Undistributed Loss (Income) of Limited Liability Companies in the Company's Unaudited Condensed Statement of Cash Flows.

(c) Amounts are recorded within General and Administrative Expense in the Company's Unaudited Condensed Consolidated Statement of Operations.

NOTE 5. Goodwill and Intangible Assets

The Company evaluates goodwill for impairment in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," and evaluates finite-lived intangible assets for impairment in accordance with SFAS 144. During the second quarter of 2007, the Company made a decision, primarily due to market conditions, to discontinue the use of the Shamrock name and other intangible assets that were acquired as part of the July 2005 acquisition of Shamrock Homes, a Florida homebuilder, and as a result wrote off the $3.6 million remaining unamortized balance of these intangible assets. The Company also determined that the goodwill associated with this acquisition was impaired due to continued adverse market conditions, and wrote off the $1.6 million goodwill balance.

NOTE 6. Capitalized Interest

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(In thousands)	**2007**	2006	**2007**	2006
Capitalized interest, beginning of period	**$ 39,895**	$ 30,332	**$ 35,219**	$ 19,232
Interest capitalized to inventory	**4,604**	8,431	**16,316**	21,468
Capitalized interest charged to cost of sales	**(4,013)**	(4,225)	**(11,049)**	(6,162)
Capitalized interest, end of period	**$ 40,486**	$ 34,538	**$ 40,486**	$ 34,538
Interest incurred (a)	**$ 9,618**	$ 12,009	**$ 28,596**	$ 32,398

Interest incurred includes $0.9 million and $1.7 million for the three months and nine months ended September 30, 2007, respectively, and $0.4 million and $1.1 million for the three months and nine months ended September 30, 2006, respectively, relating to amortization of debt issuance costs.

NOTE 7. Property and Equipment

The Company records property and equipment at cost and subsequently depreciates the assets using both straight-line and accelerated methods. Following is a summary of the major classes of depreciable assets and their estimated useful lives as of September 30, 2007 and December 31, 2006:

(In thousands)	**September 30, 2007**	December 31, 2006
Land, building and improvements	**$ 11,823**	$ 11,823
Office furnishings, leasehold improvements, computer equipment and computer software	**19,086**	16,130
Transportation and construction equipment	**22,532**	22,532
Property and equipment	**53,441**	50,485
Accumulated depreciation	**(16,644)**	(14,227)
Property and equipment, net	**$ 36,797**	$ 36,258

	Estimated Useful Lives
Building and improvements	35 years
Office furnishings, leasehold improvements, computer equipment and computer software	3-7 years
Transportation and construction equipment	5-20 years

Depreciation expense (excluding expense relating to model furnishings classified in Inventory) was approximately $3.2 million and $2.7 million for the nine month periods ended September 30, 2007 and 2006, respectively.

NOTE 8. Investment in Unconsolidated Limited Liability Companies

At September 30, 2007, the Company had interests ranging from 33% to 50% in LLCs that do not meet the criteria of variable interest entities because each of the entities had sufficient equity at risk to permit the entity to finance its activities without additional subordinated support from the equity investors, and three of these LLCs have outside financing that is not guaranteed by the Company. These LLCs engage in land acquisition and development activities for the purpose of selling or distributing (in the form of a capital distribution) developed lots to the Company and its partners in the entity. In certain of these LLCs, the Company and its partner in the entity have provided the lenders with environmental indemnifications and guarantees of the completion of land development and minimum net worth levels of certain of the Company's subsidiaries as more fully described in Note 9 below. These entities have assets totaling $174.6 million and liabilities totaling $84.4 million, including third party debt of $74.8 million, as of September 30, 2007. The Company's maximum exposure related to its investment in these entities as of September 30, 2007 is the amount invested of $42.7 million, plus letters of credit and bonds totaling $8.4 million and the possible future obligation of $45.7 million under the guarantees and indemnifications discussed in Note 9 below. Included in the Company's investment in LLCs at September 30, 2007 and December 31, 2006 are $1.9 million and $1.3 million, respectively, of capitalized interest and other costs. The Company does not have a controlling interest in these LLCs; therefore, they are recorded using the equity method of accounting.

During the quarter ended September 30, 2007, the Company contributed $1.0 million of land to invest in a new unconsolidated LLC which was distributed from an existing unconsolidated LLC, and also exchanged its interest in certain unconsolidated LLCs for developed lots. This transaction was accounted for in accordance with SFAS No. 153, "Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29." There was no cash exchanged in the transaction and no gain or loss recorded on the transaction.

In accordance with APB 18 and SAB Topic 5M, the Company evaluates its investment in unconsolidated LLCs for potential impairment. Refer to Note 4 for additional details relating to our procedures for evaluating our investment in LLCs for impairment.

NOTE 9. Guarantees and Indemnifications

Warranty

During the third quarter of 2007, the Company implemented a new limited warranty program ("Home Builder's Limited Warranty") in conjunction with its thirty-year transferable structural limited warranty, on homes closed after the implementation date. The Home Builder's Limited Warranty covers construction defects for a statutory period based on geographic market and state law (currently ranging from five to ten years for the states in which the Company operates) and includes a mandatory arbitration clause. Prior to this new warranty program, the Company provided up to a two

year limited warranty on materials and workmanship and a twenty-year (for homes closed between 1989 and 1998) and a thirty-year (for homes closed during or after 1998) transferable limited warranty against major structural defects. The Company does not believe that this change in warranty program will significantly impact its warranty expense.

Warranty expense is accrued as homes close to homebuyers and is intended to cover estimated material and outside labor costs to be incurred during the warranty period. The accrual amounts are based upon historical experience and geographic location. A summary of warranty activity for the three and nine months ended September 30, 2007 and 2006 is as follows:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(In thousands)	**2007**	2006	**2007**	2006
Warranty accrual, beginning of period	**$ 13,137**	$ 12,689	**$ 14,095**	$ 13,940
Warranty expense on homes delivered during the period	**1,843**	2,191	**5,161**	6,558
Changes in estimates for pre-existing warranties	**(683)**	584	**(449)**	(341)
Settlements made during the period	**(2,582)**	(2,343)	**(7,092)**	(7,036)
Warranty accrual, end of period	**$ 11,715**	$ 13,121	**$ 11,715**	$ 13,121

Guarantees and Indemnities

In the ordinary course of business, M/I Financial Corp., our wholly-owned subsidiary ("M/I Financial"), 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 $134.0 million and $174.0 million were covered under the above guarantees as of September 30, 2007 and December 31, 2006, respectively. A portion of the revenue paid to M/I Financial for providing the guarantees on the above loans was deferred at September 30, 2007 and will be recognized in income as M/I Financial is released from its obligation under the guarantees. M/I Financial has provided indemnifications to third party investors in lieu of repurchasing certain loans. The total of these indemnified loans was approximately $2.4 million as of both September 30, 2007 and December 31, 2006. The risk associated with the guarantees and indemnities above is offset by the value of the underlying assets. The Company has accrued management's best estimate of the probable loss on the above loans.

M/I Financial has also guaranteed the collectibility of certain loans to third-party insurers of those loans for periods ranging from five to thirty years. The maximum potential amount of future payments is equal to the outstanding loan value less the value of the underlying asset plus administrative costs incurred related to foreclosure on the loans, should this event occur. The total of these costs are estimated to be $1.9 million and $2.1 million at September 30, 2007 and December 31, 2006, respectively, and would be offset by the value of the underlying assets. The Company has accrued management's best estimate of the probable loss on the above loans.

The Company has also provided certain other guarantees and indemnifications. The Company has provided an environmental indemnification to an unrelated third party seller of land in connection with the Company's purchase of that land. In addition, the Company has provided environmental indemnifications, guarantees for the completion of land development, a loan maintenance and limited payment guaranty and minimum net worth guarantees of certain of the Company's subsidiaries in connection with outside financing provided by lenders to certain of our 50% owned LLCs. Under the environmental indemnifications, the Company and its partner in the applicable LLC are jointly and severally liable for any environmental claims relating to the property that are brought against the lender. Under the land development completion guarantees, the Company and its partner in the applicable LLC are jointly and severally liable to incur any and all costs necessary to complete the development of the land in the event that the LLC fails to complete the project. The maximum amount that the Company could be required to pay under the land development

completion guarantees was approximately $30.3 million and $11.1 million as of September 30, 2007 and December 31, 2006, respectively. The risk associated with these guarantees is offset by the value of the underlying assets. Under the loan maintenance and limited payment guaranty, the Company and the applicable LLC partner have jointly and severally agreed to the third party lender to fund any shortfall in the event the ratio of the loan balance to the current fair market value of the property under development by the LLC is below a certain threshold. As of September 30, 2007, the total maximum amount of future payments the Company could be required to make under the loan maintenance and limited payment guaranty was approximately $15.4 million. As of September 30, 2007, the Company believes that it will be required to contribute approximately $1.6 million of capital to an unconsolidated LLC under the loan maintenance and limited payment guaranty. This contribution, along with any contribution from our partner in the unconsolidated LLC, would reduce the current maximum amount of future payments the Company would be required to make under the loan maintenance and limited payment guaranty discussed above. Under the above guarantees and indemnifications, the LLC operating agreements provide recourse against our LLC partners for 50% of any actual liability associated with the environmental indemnifications, land development completion guarantees and loan

maintenance and limited payment guaranty. Under the minimum net worth guarantees, the Company is required to maintain $300 million of total net worth, and two of our subsidiaries are also required to maintain minimum levels of net worth that are substantially lower than the total Company requirement.

The Company has recorded a liability relating to the guarantees and indemnities described above totaling $2.4 million at September 30, 2007 and $2.5 million at December 31, 2006. The recorded guarantee or indemnity liability was based on management's best estimate of the fair value of the Company's liability as of the date the guarantee or indemnity was entered into.

The Company has also provided a guarantee of the performance and payment obligations of M/I Financial up to an aggregate principal amount of $13.0 million. The guarantee was provided to a government-sponsored enterprise to which M/I Financial delivers loans.

NOTE 10. Commitments and Contingencies

At September 30, 2007, the Company had sales agreements outstanding, some of which have contingencies for financing approval, to deliver 1,468 homes with an aggregate sales price of approximately $480.5 million. Based on our current quarter cost structure, we estimate payments totaling approximately $153.3 million to be made in the future relating to those homes. At September 30, 2007, the Company also had options and contingent purchase agreements to acquire land and developed lots with an aggregate purchase price of approximately $132.7 million. Purchase of such properties is contingent upon satisfaction of certain requirements by the Company and the sellers.

At September 30, 2007, the Company had outstanding approximately $128.5 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 July 2015. Included in this total are: (1) $86.4 million of performance bonds and $25.2 million of performance letters of credit that serve as completion bonds for land development work in progress (including the Company's $4.5 million share of our LLCs' letters of credit and bonds); (2) $11.0 million of financial letters of credit, of which $4.1 million represent deposits on land and lot purchase agreements and (3) $5.8 million of financial bonds.

At September 30, 2007, the Company had outstanding $1.5 million of corporate promissory notes. These notes are due and payable in full upon default of the Company under agreements to purchase land or lots from third parties. No interest or principal is due until the time of default. In the event that the Company performs under these purchase agreements without default, the notes will become null and void and no payment will be required.

At September 30, 2007, the Company had $0.2 million of certificates of deposit included in Other Assets that have been pledged as collateral for mortgage loans sold to third parties, and therefore, are restricted from general use.

The Company and certain of its subsidiaries have been named as defendants in various claims, complaints and other legal actions incidental to the Company's business. Certain of the liabilities resulting from these actions 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 adverse effect on the Company's financial position or overall trends in results of operations, 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 matters could differ from the recorded estimates and, therefore, have a material adverse impact on the Company's net income for the periods in which the matters are resolved.

NOTE 11. Community Development District Infrastructure and Related Obligations

A Community Development District and/or Community Development Authority ("CDD") is a unit of local government created under various state and/or local statutes to encourage planned community development and to allow for the construction and maintenance of long-term infrastructure through alternative financing sources, including the tax-exempt markets. A CDD is generally created through the approval of the local city or county in which the CDD is located and is controlled by a Board of Supervisors representing the landowners within the CDD. CDDs may utilize bond financing to fund construction or acquisition of certain on-site and off-site infrastructure improvements near or within these communities. CDDs are also granted the power to levy special assessments to impose ad valorem taxes, rates, fees and other charges for the use of the CDD project. An allocated share of the principal and interest on the bonds issued by the CDD is assigned to and constitutes a lien on each parcel within the

community evidenced by an assessment ("Assessment"). The owner of each such parcel is responsible for the payment of the Assessment on that parcel. If the owner of the parcel fails to pay the Assessment, the CDD may foreclose on the lien pursuant to powers conferred to the CDD under applicable state laws and/or foreclosure procedures. In connection with the development of certain of the Company's communities, CDDs have been established and bonds have been issued to finance a portion of the related infrastructure. Following are details relating to the CDD bond obligations issued and outstanding as of September 30, 2007:

Issue Date	Maturity Date	Interest Rate	Principal Amount (in thousands)
5/1/2004	5/1/2035	6.00%	$ 9,280
7/15/2004	12/1/2022	6.00%	4,755
7/15/2004	12/1/2036	6.25%	10,060
3/1/2006	5/1/2037	5.35%	22,685
3/15/2007	5/1/2037	5.20%	7,105
Total CDD bond obligations issued and outstanding as of September 30, 2007			$53,885

In accordance with Emerging Issues Task Force Issue 91-10, "Accounting for Special Assessments and Tax Increment Financing," the Company records a liability for the estimated developer obligations that are fixed and determinable and user fees that are required to be paid or transferred at the time the parcel or unit is sold to an end user. The Company reduces this liability by the corresponding Assessment assumed by property purchasers and the amounts paid by the Company at the time of closing and the transfer of the property. The Company has recorded a liability of $22.1 million and $18.5 million as of September 30, 2007 and December 31, 2006, respectively, related to these CDD bond obligations, along with the related inventory infrastructure.

In addition, at September 30, 2007 and December 31, 2006, the Company had outstanding a CDD bond obligation in connection with the purchase of land of $0.9 million and $1.1 million, respectively. This obligation bears interest at a rate of 5.5% and matures November 1, 2010. As lots are closed to third parties, the Company will repay the CDD bond obligation associated with each lot.

NOTE 12. Consolidated Inventory Not Owned and Related Obligation

In the ordinary course of business, the Company enters into land option contracts in order to secure land for the construction of homes in the future. Pursuant to these land option contracts, the Company will provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices. Under FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities" ("FIN 46(R)"), if the entity holding the land under the option contract is a variable interest entity, the Company's deposit (including letters of credit) represents a variable interest in the entity. The Company does not guarantee the obligations or performance of these variable interest entities.

In applying the provisions of FIN 46(R), the Company evaluated all land option contracts and determined that the Company was subject to a majority of the expected losses or entitled to receive a majority of the expected residual returns under certain land contracts. As the primary beneficiary under these contracts, the Company is required to consolidate the fair value of the variable interest entities.

As of September 30, 2007 and December 31, 2006, the Company had recorded $4.0 million and $3.3 million, respectively, within Inventory on the Condensed Consolidated Balance Sheet, representing the fair value of land under certain land option contracts. The corresponding liability has been classified as Obligation for Consolidated Inventory Not Owned on the Unaudited Condensed Consolidated Balance Sheet.

As of September 30, 2007 and December 31, 2006, the Company also had recorded within Inventory on the Condensed Consolidated Balance Sheet $2.1 million and $1.7 million, respectively, of land for which the Company does not have title because the land was sold to a third party, with the Company retaining an option to repurchase developed lots. In accordance with SFAS No. 66, “Accounting for Sales of Real Estate,” the Company has continuing involvement in the land as a result of the repurchase option, and therefore is not permitted to recognize the sale of the land. The corresponding liability has been classified as Obligation for Consolidated Inventory Not Owned on the Unaudited Condensed Consolidated Balance Sheet.

NOTE 13. Notes Payable Banks

On August 28, 2007, the Company entered into the First Amendment (the "First Amendment") to the Second Amended and Restated Credit Agreement dated October 6, 2006 (the "Credit Facility"). Among other things, the First Amendment amends the Credit Facility by: (1) reducing the Aggregate Commitment (as defined therein) from $650 million to $500 million; (2) incrementally reducing the required ratio of the Company's consolidated EBITDA (as defined therein) to consolidated interest incurred (the "Interest Coverage Ratio" or "ICR") beginning with the quarter ending December 31, 2007 and continuing through the quarter ending March 31, 2009, and then slightly increasing the ICR thereafter; (3) reducing the maximum permitted ratio of indebtedness to consolidated tangible net worth (the "Leverage Ratio") if the ICR is less than 2.00 to 1.00, with the amount of the decrease dependent on the amount by which the ICR is below 2.00 to 1.00; (4) increasing certain pricing provisions when the ICR is less than 2.00 to 1.00; (5) providing that the value of speculative houses in the borrowing base shall not exceed $125 million; and (6) increasing the permitted percentage of speculative houses relative to total house closings. As of September 30, 2007, the Company was in compliance with all restrictive covenants of the Credit Facility.

NOTE 14. (Loss) Earnings Per Share

Basic (loss) earnings per common share is computed using the weighted average number of common shares outstanding. Diluted (loss) earnings per common share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to non-vested contingent shares, shares underlying deferred compensation awards and outstanding options to purchase common shares (together, "incremental shares"), if dilutive. For both the three and nine months ended September 30, 2007, there were no incremental shares because the Company had a net loss for the periods and such shares would not be dilutive.

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(In thousands, except per share amounts)	**2007**	2006	**2007**	2006
Basic weighted average shares outstanding	**13,990**	13,892	**13,969**	13,991
Effect of dilutive securities:				
Stock option awards	**-**	61	**-**	73
Contingent shares (performance-based restricted shares) (a)	**-**	-	**-**	-
Deferred compensation awards	**-**	125	**-**	123
Diluted weighted average shares outstanding	**13,990**	14,078	**13,969**	14,187
Net (loss) income	**$ (21,717)**	$ 15,185	**$ (59,666)**	$ 49,844
Less: preferred share dividends	**2,437**	-	**4,875**	-
Net (loss) income available to common shareholders	**$ (24,154)**	$ 15,185	**$ (64,541)**	$ 49,844
(Loss) earnings per common share				
Basic	**$ (1.73)**	$ 1.09	**$ (4.62)**	$ 3.56
Diluted	**$ (1.73)**	$ 1.08	**$ (4.62)**	$ 3.51
Anti-dilutive equity awards not included in the calculation of diluted earnings per common share	**1,133**	672	**1,141**	726

(a) These performance-based awards were granted during the first quarter of 2007. As of September 30, 2007, the performance conditions have not been met; therefore, there is no impact on diluted earnings per share for the three and nine months ended September 30, 2007.

NOTE 15. Income Taxes

The Company provides for income taxes in interim periods based on its annual estimated effective tax rate. The Company estimates the annual effective tax rate based upon its forecast of annual pre-tax results by tax jurisdiction. The Company currently estimates a 37.6% annual effective tax rate. To the extent that actual pre-tax results differ from the forecast estimates applied at the end of the most recent interim period, the actual income tax rate recognized in 2007 could be materially different than the estimated annual effective tax rate.

As of September 30, 2007, the Company's deferred income tax assets were $73.4 million, compared to $39.7 million at December 31, 2006, with the increase primarily due to additional inventory valuation adjustments and write-offs as discussed in Note 4. At September 30, 2007, the Company has recorded a $0.3 million valuation allowance relating to deferred tax assets compared to none at December 31, 2006. The valuation allowance has been established for deferred tax assets on a "more likely than not" threshold. The Company has considered the following possible sources of taxable income when assessing the realization of the deferred tax assets: (1) future reversals of existing taxable temporary differences; (2) taxable income in prior carryback years; (3) tax planning strategies; and (4) future taxable income exclusive of reversing temporary differences and carryforwards. If in the future the Company determines that it is more likely than not that any of these deferred tax assets will be realized, the valuation allowance will be reversed accordingly.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109" ("FIN 48"), which requires the Company to determine whether it is more likely than not that its current tax positions will be sustained upon examination and, if so, the Company must measure each tax position and recognize in its financial statements the largest amount of benefit that has greater than a 50% likelihood of being realized upon settlement. As of the date of adoption, the total amount of unrecognized tax benefits was $5.1 million, of which $4.7 million would favorably impact the Company's effective tax rate if recognized. The cumulative effect of adopting FIN 48 had no impact on the Company's beginning retained earnings. As of January 1, 2007, the Company had $1.7 million of accrued interest and penalties relating to uncertain tax positions. The Company continues to record interest and penalties as a component of the Provision for Income Taxes on the Unaudited Condensed Consolidated Statement of Operations and as a component of the unrecognized tax benefits recorded within Other Liabilities on the Unaudited Condensed Consolidated Balance Sheet.

As of September 30, 2007, the Company estimated that the total amount of unrecognized tax benefits could decrease by approximately $1.0 million within the next twelve months, of which $0.7 million would decrease income tax expense if recognized, resulting from the closing of certain tax years. These unrecognized tax benefits relate primarily to the deductibility of certain intercompany charges. As of September 30, 2007, the Company's federal income tax returns for 2004 through 2006 are open years. The Company files income tax returns in various state and local jurisdictions, with varying statutes of limitations. Ohio and Florida are both major tax jurisdictions. As of September 30, 2007, Ohio has open tax years of 2004 through 2006 and Florida has open tax years of 2003 through 2006.

NOTE 16. Purchase of Treasury Shares

On November 8, 2005, the Company obtained authorization from the Board of Directors to repurchase up to $25 million of its outstanding common shares. The repurchase program expires on November 8, 2010 and was publicly announced on November 10, 2005. The repurchases may occur in the open market and/or in privately negotiated transactions as market conditions warrant. During the nine month period ended September 30, 2007, the Company did not repurchase any shares. As of September 30, 2007, the Company had approximately $6.7 million available to repurchase outstanding common shares under the Board approved repurchase program.

NOTE 17. Dividends on Common Shares

On October 18, 2007, the Company paid to shareholders of record of its common shares on October 1, 2007 a cash dividend of $0.025 per share. Total dividends paid on common shares in 2007 through October 18 were approximately $1.4 million.

NOTE 18. Preferred Shares

The Company's Articles of Incorporation authorize the issuance of up to 2,000,000 preferred shares, par value $.01 per share. On March 15, 2007, the Company issued 4,000,000 depositary shares, each representing 1/1000th of a 9.75% Series A Preferred Share, or 4,000 preferred shares in the aggregate. As of September 30, 2007, total dividends paid on preferred shares in 2007 were approximately $4.9 million.

NOTE 19. Universal Shelf Registration

As of September 30, 2007, $50 million remains available for future offerings under a $150 million universal shelf registration filed by the Company with the SEC in April 2002. Pursuant to the filing, the Company may, from time to time over an extended period, offer new debt, preferred stock and/or other equity securities. Of the equity shares, up to 1 million common shares may be sold by certain shareholders who are considered selling shareholders. The timing and amount of offerings, if any, will depend on market and general business conditions.

NOTE 20. Business Segments

In conformity with SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information" ("SFAS 131"), the Company's segment information is presented on the basis that the chief operating decision makers use in evaluating segment performance. The Company's chief operating decision makers evaluate the Company's performance in various ways, including: (1) the results of our eleven individual homebuilding operating segments and the results of the financial services operation; (2) our three homebuilding regions; and (3) our consolidated financial results. We have determined our reportable segments in accordance with SFAS 131 as follows: Midwest homebuilding, Florida homebuilding, Mid-Atlantic homebuilding and financial services operations.

The homebuilding operating segments that are included within each reportable segment have similar operations and exhibit similar economic characteristics, and therefore meet the aggregation criteria in SFAS 131. 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	Florida	Mid-Atlantic
Columbus, Ohio	Tampa, Florida	Maryland (2)
Cincinnati, Ohio	Orlando, Florida	Virginia
Indianapolis, Indiana	West Palm Beach, Florida	Charlotte, North Carolina
Chicago, Illinois (1)		Raleigh, North Carolina

(1) The Company announced its entry into the Chicago market during the second quarter of 2007, and has not purchased any land or sold or closed any homes in this market as of September 30, 2007.
(2) Maryland also includes homebuilding operations in Delaware.

The financial services operations include the origination and sale of mortgage loans and title and insurance agency services for purchasers of the Company's homes.

The chief operating decision makers utilize operating (loss) income, defined as (loss) income before interest expense and income taxes, as a performance measure.

The following table shows, by segment, revenue, operating (loss) income and interest expense for the three and nine months ended September 30, 2007 and 2006, as well as the Company's total (loss) income before taxes for such periods:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(In thousands)	**2007**	2006	**2007**	2006
Revenue:				
Midwest homebuilding	**$ 96,831**	$ 122,837	**$ 246,718**	$ 345,179
Florida homebuilding	**67,778**	117,439	**238,761**	354,100
Mid-Atlantic homebuilding	**74,802**	63,645	**204,119**	158,923
Other homebuilding - unallocated (a)	**(552)**	(1,372)	**(780)**	3,425
Financial services (b)	**4,809**	5,124	**14,956**	19,250
Intercompany eliminations	**-**	(1,485)	**-**	(3,840)
Total revenue	**$ 243,668**	$ 306,188	**$ 703,774**	$ 877,037
Operating (loss) income:				
Midwest homebuilding	**$ (964)**	$ 2,852	**$ (8,559)**	$ 18,239
Florida homebuilding	**(20,417)**	23,729	**(34,732)**	75,214
Mid-Atlantic homebuilding	**(2,935)**	5,606	**(27,291)**	13,947
Other homebuilding - unallocated (a)	**327**	(186)	**254**	503
Financial services	**2,175**	2,417	**7,240**	11,015
Less: Corporate selling, general and administrative expense	**(8,124)**	(7,960)	**(21,210)**	(29,207)
Total operating (loss) income	**$ (29,938)**	$ 26,458	**$ (84,298)**	$ 89,711

Interest expense: (c)				
Midwest homebuilding	**$ 1,617**	$ 1,365	**$ 3,631**	$ 4,516
Florida homebuilding	**2,223**	1,273	**5,579**	3,233
Mid-Atlantic homebuilding	**1,014**	920	**2,683**	2,883
Financial services	**160**	20	**387**	298
Total interest expense	**$ 5,014**	$ 3,578	**$ 12,280**	$ 10,930
Total (loss) income before income taxes	**$ (34,952)**	$ 22,880	**$ (96,578)**	$ 78,781

(a) Other homebuilding – unallocated consists of the net impact in the period due to timing of homes delivered with low down-payment loans (buyers put less than 5% down) funded by the Company's financial services operations not yet sold to a third party. In accordance with applicable accounting rules, recognition of such revenue must be deferred until the related loan is sold to a third party. Refer to the Revenue Recognition policy described in our Application of Critical Accounting Estimates and Policies in Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion.

(b) Financial services revenue includes $2.5 million and $1.5 million of revenue from the homebuilding segments for the three months ended September 30, 2007 and 2006, respectively, and $6.0 million and $3.9 million of revenue from the homebuilding segments for the nine months ended September 30, 2007 and 2006, respectively.

(c) Interest expense is allocated to our homebuilding operating segments based on the average monthly net investment (total assets less total liabilities) for each operating segment.

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

OVERVIEW

M/I Homes, Inc. (the "Company" or "we") is one of the nation's leading builders of single-family homes, having delivered over 70,000 homes since we commenced homebuilding in 1976. The Company's homes are marketed and sold under the trade names M/I Homes and Showcase Homes. The Company has homebuilding operations in Columbus and Cincinnati, Ohio; Indianapolis, Indiana; Chicago, Illinois; Tampa, Orlando and West Palm Beach, Florida; Charlotte and Raleigh, North Carolina; Delaware; and the Virginia and Maryland suburbs of Washington, D.C. In 2006, the latest year for which information is available, we were the 21st largest U.S. single-family homebuilder (based on homes delivered) as ranked by *Builder Magazine.*

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

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

FORWARD-LOOKING STATEMENTS

Certain information included in this report or in other materials we have filed or will file with the Securities and Exchange Commission (the "SEC") (as well as information included in oral statements or other written statements made or to be made by us) contains or may contain forward-looking statements, including, but not limited to, statements regarding our future financial performance and financial condition. Words such as "expects," "anticipates," "targets," "goals,' "projects," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intend 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 factors relating to the economic environment, interest rates, availability of resources, competition, market concentration, land development activities and various governmental rules and regulations, as more fully discussed in the "Risk Factors" section of Management's Discussion and Analysis of Financial Condition and Results of Operations and as set forth in Part II, Item 1A. Risk Factors. Except as required by applicable law or the rules and regulations of the SEC, we undertake no obligation to publicly update any forward-looking statements or risk factors, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in our subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995, and all 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 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements

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

Revenue Recognition. Revenue from the sale of a home is recognized when the closing has occurred, title has passed and an adequate initial and continuing investment by the homebuyer is received, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 66, "Accounting for Sales of Real Estate," or when the loan has been sold to a third party investor. Revenue for homes that close to the buyer having a deposit of 5% or greater, home closings financed by third parties, and all home closings insured under FHA or VA government-insured programs are recorded in the financial statements on the date of closing. Revenue related to all other home closings initially funded by our wholly-owned subsidiary, M/I Financial Corp. ("M/I Financial"), is recorded on the date that M/I Financial sells the loan to a third party investor, because the receivable from the third party investor is not subject to future subordination and the Company has transferred to this investor the usual risks and rewards of ownership that is in substance a sale and does not have a substantial continuing involvement with the home, in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." All associated homebuilding costs are charged to cost of sales in the period when the revenues from home closings are recognized. Homebuilding costs include land and land development costs, home construction costs (including an estimate of the costs to complete construction), previously capitalized interest, real estate taxes and indirect costs and estimated warranty costs. All other costs are expensed as incurred. Sales incentives, including pricing discounts and financing costs paid by the Company, are recorded as a reduction of Revenue in the Company's Unaudited Condensed Consolidated Statement of Operations. Sales incentives in the form of options or upgrades are recorded in homebuilding costs in accordance with Emerging Issues Task Force No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of a Vendor's Products)."

We recognize the majority of the revenue associated with our mortgage loan operations when the mortgage loans and related servicing rights are sold to third party investors. We defer the application and origination fees, net of costs, and recognize them as revenue, along with the associated gains or losses on the sale of the loans and related servicing rights, when the loans are sold to third party investors in accordance with SFAS No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans." The revenue recognized is reduced by the fair value of the related guarantee provided to the investor. The guarantee fair value is recognized in revenue when the Company is released from its obligation under the guarantee. Generally, all of the financial services mortgage loans and related servicing rights are sold to third party investors within two weeks of origination. We recognize financial services revenue associated with our title operations as homes are closed, closing services are rendered and title policies are issued, all of which generally occur simultaneously as each home is closed. All of the underwriting risk associated with title insurance policies is transferred to third party insurers.

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

The Company assesses inventories for recoverability in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which requires that long-lived assets be reviewed for impairment whenever 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, the margins on homes that have been delivered, margins on sales contracts in

backlog, projected margins with regard to future home sales over the life of the community, projected margins with regard to future land sales, and the value of the land itself. We pay particular attention to communities in which inventory is moving at a slower than anticipated absorption pace and communities whose average sales price and/or margins are trending downward and are anticipated to continue to trend downward. From this review, we identify communities whose carrying values may exceed their undiscounted cash flows.

Operating communities. For existing operating communities, the recoverability of assets is measured by comparing the carrying amount of the assets to 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 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 and the estimated land development, home construction and selling costs of the community, overall market supply and demand, the local economy and competitive conditions. Management reviews these assumptions on a quarterly basis, and adjusts the assumptions as necessary based on current and projected market conditions.

Future communities. For raw land or land under development that management anticipates will be utilized for future homebuilding activities, the recoverability of assets is measured by comparing the carrying amount of the assets to 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 recoverability of the assets is determined based on either the estimated net sales proceeds expected to be realized on the sale of the assets or the estimated fair value determined using cash flow valuation techniques.

If the Company has not yet determined whether raw land or land under development will be utilized for future homebuilding activities or marketed for sale to a third party, the Company assesses the recoverability of the inventory using a probability-weighted approach, in accordance with SFAS 144.

Land held for sale. Land held for sale includes land that meets all of the following six criteria defined in SFAS 144: (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. In accordance with SFAS 144, the Company records land held for sale at the lower of its carrying value or fair value less costs to sell. Fair value is determined based on the expected third party sale proceeds.

The key assumptions relating to the above valuations are dependent on project-specific local market and/or community conditions and are inherently uncertain. Local market-specific factors that may impact our project assumptions include:

- historical project results such as average sales price and sales rates, if closings have occurred in the project;
- competitors' local 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 local market economic and demographic conditions and related trends and forecasts.

These and other factors are considered by our local personnel as they prepare or update the project level assumptions. The key assumptions included in our estimated future net cash flows are interrelated. For example, a decrease in estimated sales price due to increased price discounting may result in a complementary increase in sales rates.

As of September 30, 2007, our projections generally assume a gradual improvement in market conditions over time along with a gradual increase in costs. If communities are not recoverable based on undiscounted cash flows, the

impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. The fair value of a community is determined by discounting management's cash flow projections using an appropriate risk-adjusted interest rate. As of September 30, 2007, we utilized discount rates ranging from 12% to 15% in the above valuations. The discount rate used in determining each asset's fair value depends on the community's projected life, development stage and the inherent risks associated with the related estimated cash flow stream. 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. We believe our assumptions on discount rates are critical because the selection of a discount rate affects the estimated fair value of the homesites within a community. A higher discount rate reduces the estimated fair value of the homesites within the community, while a lower discount rate increases the estimated fair value of the homesites within a community.

Our quarterly assessments reflect management's estimates. However, if homebuilding market conditions and our operating results change, or if the current challenging market conditions continue for an extended period, future results could differ materially from management's judgments and estimates.

Consolidated Inventory Not Owned. We enter into land option agreements in the ordinary course of business in order to secure land for the construction of homes in the future. Pursuant to these land option agreements, we typically provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at pre-determined prices. If the entity holding the land under option is a variable interest entity, the Company's deposit (including letters of credit) represents a variable interest in the entity, and we must use our judgment to determine if we are the primary beneficiary of the entity. Factors considered in determining whether we are the primary beneficiary include the amount of the deposit in relation to the fair value of the land, the expected timing of our purchase of the land and assumptions about projected cash flows. We consider our accounting policies with respect to determining whether we are the primary beneficiary to be critical accounting policies due to the judgment required.

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

In accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Investments In Common Stock," and SEC Staff Accounting Bulletin Topic 5.M, "Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities," the Company evaluates its investment in unconsolidated limited liability companies ("LLCs") for potential impairment on a continuous basis. If the fair value of the investment is less than the investment's carrying value and the Company has determined that the decline in value is other than temporary, the Company would write down the value of the investment to fair value. The determination of whether an investment's fair value is less than the carrying value requires management to make certain assumptions regarding the amount and timing of future contributions to the limited liability company, the timing of distribution or sale of lots to the Company from the limited liability company, the projected fair value of the lots at the time of distribution or sale to the Company, and the estimated proceeds from, and timing of, the sale of land or lots to third parties. In determining the fair value of investments in unconsolidated LLCs, the Company evaluates the projected cash flows associated with the LLC using a probability-weighted approach based on the likelihood of different outcomes. As of September 30, 2007, the Company used a discount rate of 15% in determining the fair value of investments in unconsolidated LLCs. In addition to the assumptions management must make to determine if the investment's fair value is less than the carrying value, management must also use judgment in determining whether the impairment is other than temporary. The factors management considers are: (1) the length of time and the extent to which the market value has been less than cost; (2) the financial condition and near-term prospects of the Company; and (3) the intent and ability of the Company to retain its investment in the limited liability company for a period of time sufficient to allow for any anticipated recovery in market value. Because of the high degree of judgment involved in developing these assumptions, it is possible that the Company may determine the investment is not impaired in the current period but, due to passage of time or change in market conditions leading to changes in assumptions, impairment could occur.

Guarantees and Indemnities. Guarantee and indemnity liabilities are established by charging the applicable income statement or balance sheet line, depending on the nature of the guarantee or indemnity, and crediting a liability. M/I Financial provides a limited-life guarantee on loans sold to certain third parties and estimates its actual liability related to the guarantee and any indemnities subsequently provided to the purchaser of the loans in lieu of loan repurchase based on historical loss experience. Actual future costs associated with loans guaranteed or indemnified could differ materially from our current estimated amounts. The Company has also provided certain other guarantees and indemnifications in connection with the purchase and development of land, including environmental

indemnifications, guarantees of the completion of land development, a loan maintenance and limited payment guaranty and minimum net worth guarantees of certain subsidiaries. The Company estimates these liabilities based on the estimated cost of insurance coverage or estimated cost of acquiring a bond in the amount of the exposure. Actual future costs associated with these guarantees and indemnifications could differ materially from our current estimated amounts.

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

- Home Builder's Limited Warranty – new warranty program which became effective for homes closed starting with the third quarter of 2007;
- 30-year transferable structural warranty – effective for homes closed after April 25, 1998;
- Two-year limited warranty program – effective prior to the implementation of the new Home Builder's Limited Warranty; and
- 20-year transferable structural warranty – effective for homes closed between September 1, 1989 and April 24, 1998.

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

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

Self-insurance. Self-insurance accruals are made for estimated liabilities associated with employee health care, Ohio workers' compensation and general liability insurance. Our self-insurance limit for employee health care is $250,000 per claim per year for fiscal 2007, with stop loss insurance covering amounts in excess of $250,000 up to $2,000,000 per claim per year. Our self-insurance limit for workers' compensation is $400,000 per claim with stop loss insurance covering all amounts in excess of this limit. The accruals related to employee health care and workers' compensation are based on historical experience and open cases. Our general liability claims are insured by a third party; the Company generally has a $7.5 million deductible per occurrence and $18.25 million in the aggregate, with lower deductibles for certain types of claims. The Company records a general liability accrual for claims falling below the Company's deductible. The general liability accrual estimate is based on an actuarial evaluation of our past history of claims and other industry specific factors. The Company has recorded expenses totaling $3.2 million and $4.4 million for the nine months ended September 30, 2007 and 2006, respectively, for all self-insured and general liability claims. Because of the high degree of judgment required in determining these estimated accrual amounts, actual future costs could differ from our current estimated amounts.

Stock-Based Compensation. We account for stock-based compensation in accordance with the provisions of SFAS No. 123(R), "Share Based Payment," which requires that companies measure and recognize compensation expense at an amount equal to the fair value of share-based payments granted under compensation arrangements. We calculate the fair value of stock options using the Black-Scholes option pricing model. Determining the fair value of share-based awards at the grant date requires judgment in developing assumptions, which involve a number of variables. These variables include, but are not limited to, the expected stock price volatility over the term of the awards, the expected dividend yield and the expected term of the option. In addition, we also use judgment in estimating the number of share-based awards that are expected to be forfeited.

Derivative Financial Instruments. To meet financing needs of our home-buying customers, M/I Financial is party to interest rate lock commitments ("IRLCs"), which are extended to customers who have applied for a mortgage loan and meet certain defined credit and underwriting criteria. These IRLCs are considered derivative financial instruments under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133").

M/I Financial manages interest rate risk related to its IRLCs and mortgage loans held for sale through the use of forward sales of mortgage-backed securities ("FMBSs"), use of best-efforts whole loan delivery commitments and the occasional purchase of options on FMBSs in accordance with Company policy. These FMBSs, options on FMBSs and IRLCs covered by FMBSs are considered non-designated derivatives and, in accordance with SFAS 133 and related Derivatives Implementation Group conclusions, are accounted for at fair value with gains or losses recorded in financial services revenue. Certain IRLCs and mortgage loans held for sale are committed to third party investors through the use of best-efforts whole loan delivery commitments. In accordance with SFAS 133, the IRLCs and related best-efforts whole loan delivery commitments, which generally are highly effective from an economic standpoint, are considered non-designated derivatives and are accounted for at fair value with gains or losses recorded in financial services revenue. Under the terms of these best-efforts whole loan delivery commitments covering mortgage loans held for sale, the specific committed mortgage loans held for sale are identified and matched to specific delivery commitments on a loan-by-loan basis. The delivery commitments are designated as fair value hedges of the mortgage loans held for sale, and both the delivery commitments and loans held for sale are recorded at fair value, with changes in fair value recorded in financial services revenue.

Income Taxes. Income taxes are calculated in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires the use of the asset and liability method. Deferred tax assets and liabilities are recognized based on the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using current enacted tax rates in effect in the years in which those temporary differences are expected to reverse. Inherent in the measurement of deferred balances are certain judgments and interpretations of enacted tax law and published guidance with respect to applicability to the Company's operations. We establish a valuation allowance for deferred tax assets based on whether realizing the deferred tax asset is "more likely than not." We consider the following possible sources of taxable income when assessing the realization of the deferred tax assets: (1) future reversals of existing taxable temporary differences; (2) taxable income in prior carryback years; (3) tax planning strategies; and (4) future taxable income exclusive of reversing temporary differences and carryforwards. If in the future we determine that it is more likely than not that any of these deferred tax assets will be realized, the valuation allowance will be reversed accordingly. The Company evaluates tax positions that have been taken or are expected to be taken in tax returns, and records the associated tax benefit or liability in accordance with Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). Tax positions are recognized when it is more likely than not that the tax position would be sustained upon examination. The tax position is measured at the largest amount of benefit that has a greater than 50% likelihood of being realized upon settlement. Interest and penalties for all uncertain tax positions are recorded within Provision for Income Taxes in the Unaudited Condensed Consolidated Statement of Operations.

RESULTS OF OPERATIONS

In conformity with SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information" ("SFAS 131"), the Company's segment information is presented on the basis that the chief operating decision makers use in evaluating segment performance. The Company's chief operating decision makers evaluate the Company's performance in various ways, including: (1) the results of our eleven individual homebuilding operating segments and the results of the financial services operation; (2) our three homebuilding regions; and (3) our consolidated financial results. We have determined our reportable segments in accordance with SFAS 131 as follows: Midwest homebuilding, Florida homebuilding, Mid-Atlantic homebuilding and financial services operations. The homebuilding operating segments that are included within each reportable segment have similar operations and exhibit similar economic characteristics, and therefore meet the aggregation criteria in SFAS 131. 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	Florida	Mid-Atlantic

Columbus, Ohio	Tampa, Florida	Maryland (2)
Cincinnati, Ohio	Orlando, Florida	Virginia
Indianapolis, Indiana	West Palm Beach, Florida	Charlotte, North Carolina
Chicago, Illinois (1)		Raleigh, North Carolina

(1) The Company announced its entry into the Chicago market during the second quarter of 2007, and has not purchased any land or sold or closed any homes in this market as of September 30, 2007.

(2) Maryland also includes homebuilding operations in Delaware.

The financial services operations include the origination and sale of mortgage loans and title and insurance agency services for purchasers of the Company's homes.

Highlights and Trends for the Three and Nine Months Ended September 30, 2007

Overview

The housing market continues to remain challenging with uncertainty throughout the industry. Widely reported industry concerns over credit tightening and difficulties in the sub-prime market, excess inventory of new and existing homes and weakening demand continue to impact us in virtually all of our markets. All of these factors have led to further price competition and margin compression in most of our markets. We continue to estimate that we will deliver approximately 3,000 homes in 2007, with a breakdown by region of 45% in the Midwest, 30% in Florida and 25% in the Mid-Atlantic region; however, given these market conditions, it is difficult for us to predict either our new contracts or margins. For the quarter ended September 30, 2007, our total gross margin percentage was 6.3%; however, excluding the impairment charges discussed below, the gross margin percentage was 19.6%, compared to 24.5% in 2006's third quarter (excluding 2006's impairment charges). Gross margin percentage excluding impairment of inventory and investments in unconsolidated LLCs is a non-GAAP financial measure disclosed by certain of our competitors and has been presented by us because we find it useful in evaluating our operating performance and believe that it helps readers of our financial statements compare our operations with those of our competitors.

In early 2007, we experienced some indications that conditions were improving slightly, based on our higher new contracts and reduced cancellation rate compared to the second half of 2006. In the second quarter of 2007, however, conditions deteriorated, particularly in our Florida region, where new contracts were down 38% compared to the second quarter of 2006 and were also below our expectations. Conditions continued to decline in the third quarter of 2007, and as a result, we recognized charges totaling $32.6 million for the impairment of inventory and investment in unconsolidated LLCs and abandoned land transactions. These charges by region were as follows: Midwest - $0.7 million, Florida - $25.2 million and Mid-Atlantic - $6.7 million.

We continue to focus on our predominantly defensive operating strategy, making ongoing pricing decisions on a community by community basis rather than following the significant discounting approach certain competitors are employing. We also continue to be committed to our operating strategy, which emphasizes the following:

Providing a superior customer experience;
Focusing on premier locations and highly desirable communities;
Offering products with diversity and innovative design; and
Focusing on profitability via inventory and expense reduction.

Key Financial Results

For the quarter ended September 30, 2007, total revenue decreased $62.5 million (20%) compared to the quarter ended September 30, 2006, to approximately $243.7 million. This decrease is largely attributable to a decrease of $57.8 million in housing revenue, from $290.1 million in 2006 to $232.3 million in 2007. Homes delivered decreased 15%, and the average sales price of homes delivered decreased from $313,000 to $295,000. Revenue from the outside sale of land to third parties decreased $6.7 million (48%) from $13.8 million for the quarter ended September 30, 2006 to $7.1 million for the quarter ended September 30, 2007. Financial services revenue decreased 6% from $5.1 million for the third quarter of 2007 compared to $4.8 million for the prior year's quarter due primarily to a 12% decrease in the number of mortgage loans originated.

Loss before taxes for the quarter ended September 30, 2007 was $35.0 million compared to income before taxes of $22.9 million in the third quarter of 2006. During the third quarter of 2007, the Company incurred

charges totaling $32.6 million related to impairment of inventory, investment in unconsolidated LLCs and abandoned land transaction costs. Excluding the impact of the above-mentioned charges, the Company had a pre-tax loss of $2.4 million, which represents a $25.3 million decrease from 2006's income of $22.9 million. This decrease was driven by the decrease in housing revenue discussed above, along with lower gross margins, which declined from 24.5% in 2006's third quarter (excluding 2006's impairment charges) to 19.6% in 2007's third quarter. General and administrative expenses decreased slightly from $25.1 million in 2006 to $24.6 million in 2007. This slight decrease was driven by (1) a decrease of $1.0 million in payroll and incentive expenses and (2) a decrease of $1.8 million in abandoned projects and deposit write-offs. These decreases were partially offset by (1) an increase of $0.5 million in severance expenses, (2) an increase of $0.8 million in rent expense and (3) an increase of $1.8 million in costs related to our investment in land, primarily real estate taxes. Selling expenses also decreased by $1.0 million (5%) for the quarter ended September 30, 2007 when compared to the quarter ended September 30, 2006 primarily due to a $1.1 million decrease in variable selling expenses and a $0.9 million decrease in advertising expenses. Partially offsetting those decreases in selling expenses were increases of $0.5 million in payroll expenses and $0.4 million for enhancements made to our design centers.

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For the nine months ended September 30, 2007, total revenue decreased $173.3 million (20%) compared to the first nine months of 2006. This decrease is largely attributable to a decrease of $166.6 million in housing revenue, from $840.0 million in 2006 to $673.4 million in 2007. Homes delivered for the nine months ended September 30, 2007 decreased 18% compared to the nine months ended September 30, 2006 and the average sales price of homes delivered decreased from $306,000 to $300,000. Revenue from the outside sale of land to third parties decreased slightly from $18.2 million in 2006 to $16.2 million in 2007. Financial services revenue decreased $4.3 million (22%), driven by a 16% decrease in the number of mortgage loans originated.

Loss before taxes for the nine months ended September 30, 2007 was $96.6 million compared to income before taxes of $78.8 million in the 2006 nine-month period. In 2007, the Company incurred charges totaling $101.7 million related to impairment of inventory, investment in

unconsolidated LLCs and abandoned transaction costs, and $5.2 million related to the impairment of goodwill and intangible assets relating to our 2005 acquisition of Shamrock Homes, a Florida homebuilder. Excluding the impact of the above-mentioned charges, the Company earned pre-tax income of $10.3 million for the nine months ended September 30, 2007, which represents a $68.5 million decrease from 2006's income of $78.8 million. This decrease was driven by the decrease in housing revenue, along with lower gross margins, which declined from 26.4% for the first nine months of 2006 (excluding the impact of 2006's impairment charges) to 20.9% for the nine months ended September 30, 2007. General and administrative expenses decreased $1.1 million (2%) primarily due to (1) a decrease in payroll and incentive expenses of $5.9 million, (2) a decrease in severance expenses of $4.4 million and (3) a decrease of $1.8 million relating to abandoned land transactions and deposit write-offs. These decreases were partially offset by (1) the write-off of the goodwill and other assets of our July 2005 acquisition of Shamrock Homes of $5.2 million, (2) an increase of $1.7 million in rent expense and (3) an increase of $4.3 million in costs related to our investment in land, primarily real estate taxes.

New contracts for the third quarter of 2007 were 561 compared to 571 in 2006's third quarter. For the nine months ended September 30, 2007, new contracts decreased by 281 (11%) compared to the same period in 2006. For the third quarter of 2007, our cancellation rate was 38% compared to 42% in 2006's third quarter. By region, our third quarter cancellation rates in 2007 versus 2006 were as follows: Midwest – 38% in 2007 and 47% in 2006; Florida – 45% in 2007 and 47% in 2006; and Mid-Atlantic – 29% in 2007 and 22% in 2006. The overall cancellation rate remained consistent at approximately 30% for the nine months ended September 30, 2007 compared to 31% for the nine months ended September 30, 2006.

As a result of lower refinance volume for outside lenders and increased competition, during 2007 we expect to continue to experience pressure on our mortgage company's capture rate, which was approximately 75% for the first nine months of 2007 and 80% for the first nine months of 2006. This continued pressure on our capture rate could continue to negatively impact earnings.

As discussed above, we are experiencing changes in market conditions that require us to constantly monitor the value of our inventories and investments in unconsolidated LLCs in those markets in which we operate, in accordance with generally accepted accounting principles. During the three and nine months ended September 30, 2007, we recorded $32.6 million and $101.7 million, respectively, of charges relating to the impairment of inventory and investment in unconsolidated LLCs and write-off of abandoned land transaction costs. We generally believe that we will see a gradual improvement in market conditions over the long term. During 2007, we will continue to update our evaluation of the value of our inventories and investments in

unconsolidated LLCs for impairment, and could be required to record additional impairment charges, which would negatively impact earnings should market conditions deteriorate further or results differ from management's original assumptions.

Our income tax rate was 37.9% and 38.2%, respectively, for the three and nine months ended September 30, 2007, compared to 33.6% and 36.7%, respectively, for the three and nine months ended September 30, 2006.

The following table shows, by segment, revenue, operating (loss) income and interest expense for the three and nine months ended September 30, 2007 and 2006, as well as the Company's total (loss) income before taxes for such periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2007**	2006	**2007**	2006
Revenue:				
Midwest homebuilding	**$ 96,831**	$ 122,837	**$ 246,718**	$ 345,179
Florida homebuilding	**67,778**	117,439	**238,761**	354,100
Mid-Atlantic homebuilding	**74,802**	63,645	**204,119**	158,923
Other homebuilding - unallocated (a)	**(552)**	(1,372)	**(780)**	3,425
Financial services (b)	**4,809**	5,124	**14,956**	19,250
Intercompany eliminations	**-**	(1,485)	**-**	(3,840)
Total revenue	**$ 243,668**	$ 306,188	**$ 703,774**	$ 877,037
Operating (loss) income:				
Midwest homebuilding	**$ (964)**	$ 2,852	**$ (8,559)**	$ 18,239
Florida homebuilding	**(20,417)**	23,729	**(34,732)**	75,214
Mid-Atlantic homebuilding	**(2,935)**	5,606	**(27,291)**	13,947
Other homebuilding - unallocated (a)	**327**	(186)	**254**	503
Financial services	**2,175**	2,417	**7,240**	11,015
Less: Corporate selling, general and administrative expense	**(8,124)**	(7,960)	**(21,210)**	(29,207)
Total operating (loss) income	**$ (29,938)**	$ 26,458	**$ (84,298)**	$ 89,711
Interest expense: (c)				
Midwest homebuilding	**$ 1,617**	$ 1,365	**$ 3,631**	$ 4,516
Florida homebuilding	**2,223**	1,273	**5,579**	3,233
Mid-Atlantic homebuilding	**1,014**	920	**2,683**	2,883
Financial services	**160**	20	**387**	298
Total interest expense	**$ 5,014**	$ 3,578	**$ 12,280**	$ 10,930
Total (loss) income before income taxes	**$ (34,952)**	$ 22,880	**$ (96,578)**	$ 78,781

(a) Other homebuilding – unallocated consists of the net impact in the period due to timing of homes delivered with low down-payment loans (buyers put less than 5% down) funded by the Company's financial services operations not yet sold to a third party. In accordance with applicable accounting rules, recognition of such revenue must be deferred until the related loan is sold to a third party. Refer to the Revenue Recognition policy described in our Application of Critical Accounting Estimates and Policies above for further discussion.

(b) Financial services revenue includes $2.5 million and $1.5 million of revenue from the homebuilding segments for the three months ended September 30, 2007 and 2006, respectively, and $6.0 million and $3.9 million of revenue from the homebuilding segments for the nine months ended September 30, 2007 and 2006, respectively.

(c) Interest expense is allocated to our homebuilding operating segments based on the average monthly net investment (total assets less total liabilities) for each operating segment.

Seasonality

Our homebuilding operations experience significant seasonality and quarter-to-quarter variability in homebuilding activity levels. In general, homes delivered increase in the second half of the year. We believe that this seasonality reflects the tendency of homebuyers to shop for a new home in the spring