

M I HOMES INC
Form 10-Q
July 31, 2009

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2009

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

Commission File Number 1-12434

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

Ohio
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

Yes ☒ No

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

Yes No ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated
filer

Accelerated filer ☒ X

Non-accelerated
filer

Smaller reporting
company

(Do not check if a smaller reporting company)

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

Yes ☐ No ☒ X

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

Common shares, par value \$.01 per share: 18,510,236 shares outstanding as of July 28, 2009

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)	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS:		
Cash	\$ 25,000	\$ 32,518
Restricted cash	79,382	6,658
Mortgage loans held for sale	30,509	37,772
Inventory	496,367	516,029
Property and equipment - net	20,097	27,732
Investment in unconsolidated limited liability companies	7,432	13,130
Income tax receivable	3,067	39,456
Other assets	18,971	19,993
TOTAL ASSETS	\$ 680,825	\$ 693,288
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable	\$ 44,778	\$ 27,542
Customer deposits	5,517	3,506
Other liabilities	56,015	62,049
Community development district obligations	9,548	11,035
Obligation for consolidated inventory not owned	803	5,549
Note payable bank - financial services operations	19,478	35,078
Note payable - other	6,304	16,300
Senior notes - net of discount of \$704 and \$832, respectively, at June 30, 2009		
and December 31, 2008	199,296	199,168
TOTAL LIABILITIES	\$ 341,739	\$ 360,227
Commitments and contingencies	-	-
SHAREHOLDERS' EQUITY:		
Preferred shares - \$.01 par value; authorized 2,000,000 shares; issued 4,000 shares	\$ 96,325	96,325
Common shares - \$.01 par value; authorized 38,000,000 shares; issued 22,101,723 and 17,626,123 shares, respectively, at June 30, 2009 and December 31, 2008	221	176
Additional paid-in capital	135,946	82,146
Retained earnings	177,925	225,956
Treasury shares - at cost - 3,591,487 and 3,602,141 shares, respectively, at June 30, 2009 and December 31, 2008	(71,331)	(71,542)
TOTAL SHAREHOLDERS' EQUITY	\$ 339,086	\$ 333,061
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 680,825	\$ 693,288

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
(In thousands, except per share amounts)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	\$ 116,146	\$ 141,002	\$ 212,295	\$ 297,087
Costs, expenses and other loss (income):				
Land and housing	101,598	122,233	189,513	253,801
Impairment of inventory and investment in unconsolidated LLCs	6,576	39,872	17,522	60,979
General and administrative	16,415	17,133	28,417	34,691
Selling	9,629	13,087	18,738	26,813
Interest	1,811	2,106	5,007	6,545
Other loss (income)	-	-	941	(5,555)
Total costs, expenses and other loss (income)	136,029	194,431	260,138	377,274
Loss before income taxes	(19,883)	(53,429)	(47,843)	(80,187)
Provision for income taxes	19	37,821	188	31,213
Loss from continuing operations	(19,902)	(91,250)	(48,031)	(111,400)
Discontinued operation, net of tax	-	(413)	-	(33)
Net loss	\$ (19,902)	\$ (91,663)	\$ (48,031)	\$ (111,433)
Preferred dividends	-	2,438	-	4,875
Net loss to common shareholders	\$ (19,902)	\$ (94,101)	\$ (48,031)	\$ (116,308)
Loss per common share:				
Basic:				
Continuing operations	\$ (1.26)	\$ (6.69)	\$ (3.22)	\$ (8.30)
Discontinued operation	\$ -	\$ (0.03)	\$ -	\$ -
Basic loss	\$ (1.26)	\$ (6.72)	\$ (3.22)	\$ (8.30)
Diluted:				
Continuing operations	\$ (1.26)	\$ (6.69)	\$ (3.22)	\$ (8.30)
Discontinued operation	\$ -	\$ (0.03)	\$ -	\$ -
Diluted loss	\$ (1.26)	\$ (6.72)	\$ (3.22)	\$ (8.30)
Weighted average shares outstanding:				
Basic	15,790	14,016	14,913	14,012
Diluted	15,790	14,016	14,913	14,012
Dividends per common share	\$ -	\$ 0.025	\$ -	\$ 0.05

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30, 2009 (Unaudited)							
	Preferred Shares		Common Shares		Additional	Retained	Treasury	Total
(Dollars in thousands, except per share amounts)	Shares		Shares		Paid-in	Earnings	Shares	Shareholders'
	Outstanding	Amount	Outstanding	Amount	Capital			Equity
Balance at December 31, 2008	4,000	\$96,325	14,023,982	\$176	\$82,146	\$225,956	\$(71,542)	\$333,061
Net loss	-	-	-	-	-	(48,031)	-	(48,031)
Common stock issuance	-	-	4,475,600	45	52,523	-	-	52,568
Income tax benefit from stock options and deferred compensation distributions	-	-	-	-	(130)	-	-	(130)
Stock-based compensation expense	-	-	-	-	1,505	-	-	1,505
Deferral of executive and director compensation	-	-	-	-	113	-	-	113
Executive and director deferred compensation distributions	-	-	10,654	-	(211)	-	211	-
Balance at June 30, 2009	4,000	\$96,325	18,510,236	\$221	\$135,946	\$177,925	\$(71,331)	\$339,086

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In thousands)	Six Months Ended June 30, 2009 (Unaudited)	2008 (Unaudited)
OPERATING ACTIVITIES:		
Net loss	\$ (48,031)	\$ (111,433)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Inventory valuation adjustments and abandoned land transaction write-offs	12,130	46,967
Impairment of investment in unconsolidated limited liability companies	6,808	15,224
Mortgage loan originations	(163,612)	(171,971)
Proceeds from the sale of mortgage loans	169,234	198,487
Fair value adjustment of mortgage loans held for sale	1,641	(944)
Net loss (gain) from property disposals	941	(5,530)
Bad debt expense	1,148	-
Depreciation	2,599	2,858
Amortization of intangibles, debt discount and debt issue costs	1,256	784
Stock-based compensation expense	1,505	1,758
Deferred income tax (benefit) expense	(19,328)	2,234
Deferred tax asset valuation allowance	19,328	58,011
Income tax receivable	36,389	21,810
Excess tax benefits from stock-based payment arrangements	130	98
Equity in undistributed loss of limited liability companies	(7)	29
Write-off of unamortized debt discount and financing costs	554	1,059
Change in assets and liabilities:		
Cash held in escrow	3,597	14,224
Inventories	155	63,664
Other assets	1,127	7,487
Accounts payable	17,236	(14,944)
Customer deposits	2,011	(1,849)
Accrued compensation	(4,227)	(5,295)
Other liabilities	(1,733)	(13,229)
Net cash provided by operating activities	40,851	109,499
INVESTING ACTIVITIES:		
Restricted cash	(76,321)	-
Purchase of property and equipment	(3,127)	(2,598)
Proceeds from the sale of property	7,878	9,454
Investment in unconsolidated limited liability companies	(801)	(3,157)
Return of investment from unconsolidated limited liability companies	15	357
Net cash (used in) provided by investing activities	(72,356)	4,056
FINANCING ACTIVITIES:		
Repayments of bank borrowings - net	(15,600)	(105,674)

Principal repayments of mortgage notes payable other and community development district bond obligations	(10,638)	(199)
Net proceeds from issuance of common stock	52,568	-
Debt issue costs	(2,122)	(928)
Payments on capital lease obligations	(91)	(475)
Dividends paid	-	(5,582)
Proceeds from exercise of stock options	-	8
Excess tax benefits from stock-based payment arrangements	(130)	(98)
Net cash provided by (used in) financing activities	23,987	(112,948)
Net (decrease) increase in cash	(7,518)	607
Cash balance at beginning of period	32,518	1,506
Cash balance at end of period	\$ 25,000	\$ 2,113

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for:

Interest – net of amount capitalized	\$ 3,154	\$ 1,873
Income taxes	\$ 136	\$ 385

NON-CASH TRANSACTIONS DURING THE YEAR:

Community development district infrastructure	\$ (845)	\$ (186)
Consolidated inventory not owned	\$ (4,746)	\$ (340)
Distribution of single-family lots from unconsolidated limited liability companies	\$ 2	\$ 4,562
Transfer between other assets and inventory	\$ (813)	\$ -
Non-monetary exchange of fixed assets	\$ -	\$ 13,000
Deferral of executive and director compensation	\$ 113	\$ 85
Executive and director deferred compensation distributions	\$ 211	\$ 254

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, 2008 (“2008 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 1A. Risk Factors” in Part II of this report and in “Item 1A. Risk Factors” in Part I of our 2008 Form 10-K.

NOTE 2. Cash and Restricted Cash

The table below is a summary of our cash balances at June 30, 2009 and December 31, 2008:

(in thousands)	June 30, 2009 (Unaudited)	December 31, 2008
Homebuilding	\$ 15,981	\$ 13,905
Financial services	9,019	18,613
Unrestricted cash	25,000	32,518
Restricted cash	79,382	6,658
Total cash	\$ 104,382	\$ 39,176

Restricted cash consists of homebuilding cash the Company had in excess of \$25.0 million at June 30, 2009, that is to be designated as collateral in accordance with the Third Amendment to the Second Amended and Restated Credit Facility dated October 6, 2006 (the “Credit Facility”). See Note 17 for more details regarding the Credit Facility. Restricted cash also includes cash held in escrow of \$3.1 million and \$6.7 million at June 30, 2009 and December 31, 2008, respectively.

NOTE 3. 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 concept 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. SFAS 157, with respect to certain non-financial assets and liabilities, was effective for the Company on January 1, 2009, and the adoption of SFAS 157 did not have a material impact on the Company.

In March 2008, the FASB issued SFAS No. 161, “Disclosures About Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133” (“SFAS 161”). SFAS 161 expands the disclosure requirements in SFAS 133 regarding an entity’s derivative instruments and hedging activities. SFAS 161 is effective for the Company’s fiscal year beginning January 1, 2009. The Company adopted SFAS 161 on January 1, 2009 and it did not have an impact on the consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position (“FSP”) FAS 107-1 and Accounting Principles Board Opinion (“APB”) No. 28-1, “Interim Disclosures about Fair Value of Financial Instruments” (“FSP 107-1”). FSP 107-1 requires that the fair value disclosures required for all financial instruments within the scope of SFAS No. 107, “Disclosures about Fair Value of Financial Instruments,” be included in interim financial statements. In addition, FSP 107-1 requires public companies to disclose the method and significant assumptions used to estimate the fair value of those financial instruments and to discuss any changes of method or assumptions, if any, during the reporting period. FSP 107-1 is effective for interim reporting periods ending after June 15, 2009, and the adoption of it did not have a material effect on the Company’s Unaudited Condensed Consolidated Financial Statements, but it did result in additional disclosures.

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events” (“SFAS 165”). SFAS 165 establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Among other things, SFAS 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS 165 is effective for all interim and annual periods ending after June 15, 2009, and the adoption did not have a material impact on the Company’s Unaudited Condensed Consolidated Financial Statements.

In June 2009, the FASB issued SFAS No. 167, “Amendments to FASB Interpretation No. 46(R)” (“SFAS 167”). SFAS 167 amends certain requirements of FASB Interpretation No. 46 (revised December 2003), “Consolidation of Variable Interest Entities,” to improve financial reporting by enterprises involved with variable interest entities (“VIEs”) and to provide more relevant and reliable information to users of financial statements. SFAS 167 is effective for all new and existing VIEs as of the beginning of the first fiscal year that begins after November 15, 2009. The Company is still in the process of determining the impact, if any, the adoption of SFAS 167 will have on its Unaudited Condensed Consolidated Financial Statements.

In June 2009, the FASB issued SFAS No. 168, “The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles” (“SFAS 168”). SFAS 168 was issued to replace SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles” and to establish the FASB Accounting Standards Codification™ as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company does not expect the adoption of SFAS 168 to have a material effect on its Unaudited Condensed Consolidated Financial Statements.

NOTE 4. Fair Value Measurements

In the first quarter of 2009, the Company adopted the provisions of SFAS 157 when measuring the fair value of the Company’s inventory and LLCs. While the adoption expands the required disclosures relating to our fair value measurements, there was no financial statement impact as a result of the adoption of this standard.

SFAS 157 (a) establishes a common definition for fair value to be applied to assets and liabilities; (b) establishes a framework for measuring fair value; and (c) expands disclosures concerning fair value measurements. SFAS 157 provides three measurement input levels for determining fair value: Level 1, Level 2, and Level 3. Fair values determined by Level 1 inputs utilize quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

Assets Measured on a Recurring Basis

The Company applies SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS 159”) for its mortgage loans held for sale, and adopted SEC Staff Accounting Bulletin (“SAB”) 109 for both mortgage loans held for sale and interest rate lock commitments (“IRLCs”). Electing fair value allows a better offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them.

In the normal course of business, our financial services segment enters into contractual commitments to extend credit to buyers of single-family homes with fixed expiration dates. The commitments become effective when the borrowers “lock-in” a specified interest rate within established time frames. Market risk arises if interest rates move adversely between the time of the “lock-in” of rates by the borrower and the sale date of the loan to an investor. To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers, the Company enters into optional or mandatory delivery forward sale contracts to sell whole loans and mortgage-backed securities to broker/dealers. The forward sale contracts lock in an interest rate and price for the sale of loans similar to the specific rate lock commitments. The Company

does not engage in speculative or trading derivative activities. Both the rate lock commitments to borrowers and the forward sale contracts to broker/dealers or investors are undesignated derivatives pursuant to the requirements of SFAS No. 133, "Accounting For Derivative Instruments and Hedging Activities" ("SFAS 133"), and accordingly, are marked to fair value through earnings. Fair value is determined pursuant to SFAS 157 and SAB 109. Changes in fair value measurements are included in earnings in the accompanying statements of operations.

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

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

Mortgage loans held for sale are closed at cost, which includes all fair value measurement in accordance with SFAS 133.

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

Some IRLCs are committed to a specific third-party investor through the use of best-efforts whole loan delivery commitments matching the exact terms of the IRLC loan. The notional amount of the committed IRLCs and the best-efforts contracts was \$5.3 million and \$21.2 million at June 30, 2009 and December 31, 2008, respectively. At June 30, 2009, the fair value of the committed IRLCs resulted in a liability of \$0.2 million and the related best-efforts contracts resulted in a liability of \$0.1 million. At December 31, 2008, the fair value of the committed IRLCs resulted in a liability of \$0.1 million and the related best-efforts contracts resulted in a liability of less than \$0.1 million. For both the three and six months ended June 30, 2009, we recognized expense of \$0.1 million relating to marking these committed IRLCs and the related best-efforts contracts to market. For the three and six months ended June 30, 2008, we recognized income of less than \$0.1 million and expense of \$0.2 million, respectively, relating to marking these committed IRLCs and the related best-efforts contracts to market.

Uncommitted IRLCs are considered derivative instruments under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), and are fair value adjusted, with the resulting gain or loss recorded in current earnings. At June 30, 2009 and December 31, 2008, the notional amount of the uncommitted IRLCs was \$65.8 million and \$25.4 million, respectively. The fair value adjustment related to these uncommitted IRLCs, which is based on quoted market prices, resulted in a liability of less than \$0.1 million and an asset of \$0.8 million at June 30, 2009 and December 31, 2008, respectively. For the three and six months ended June 30, 2009, we recognized expense of \$0.6 million and \$0.8 million, respectively, relating to marking the uncommitted IRLCs to market. For the three and six months ended June 30, 2008, we recognized expense of \$0.3 million and income of \$0.5 million, respectively, relating to marking the uncommitted IRLCs to market.

Forward Sales of Mortgage-Backed Securities: Forward sales of mortgage-backed securities (“FMBSs”) are used to protect uncommitted IRLC loans against the risk of changes in interest rates between the lock date and the funding date. FMBSs related to uncommitted IRLCs are classified and accounted for as non-designated derivative instruments and are recorded at fair value, with gains and losses recorded in current earnings. At June 30, 2009 and December 31, 2008, the notional amount under these FMBSs was \$67.0 million and \$14.0 million, respectively, and the related fair value adjustment, which is based on quoted market prices, resulted in an asset of \$0.4 million and a liability of \$0.2 million, respectively. For the three and six months ended June 30, 2009, we recognized income of \$0.7 million and \$0.6 million, respectively, relating to marking these FMBSs to market. For the three and six months ended June 30, 2008, we recognized income of \$0.6 million and \$0.3 million, respectively, relating to marking these FMBSs to market.

Mortgage Loans Held for Sale: Mortgage loans held for sale consist primarily of single-family residential loans collateralized by the underlying property. During the intervening period between when a loan is closed and when it is sold to an investor, the interest rate risk is covered through the use of a best-efforts contract or by FMBSs.

The notional amount of the best-efforts contracts and related mortgage loans held for sale was \$7.2 million and \$13.6 million at June 30, 2009 and December 31, 2008, respectively. The fair value of the best-efforts contracts and related mortgage loans held for sale resulted in a net liability of \$0.4 million and a net asset of \$0.2 million at June 30, 2009 and December 31, 2008, respectively. For the three and six months ended June 30, 2009, we recognized expense of \$0.3 million and \$0.6 million, respectively, relating to marking these best-efforts contracts and the related mortgage loans held for sale to market. For the three and six months ended June 30, 2008, we recognized income of \$0.1 million and expense of less than \$0.1 million, respectively, relating to marking these best-efforts contracts and the related mortgage loans held for sale to market.

The notional amounts of the FMBSs and the related mortgage loans held for sale were \$23.0 million and \$23.6 million, respectively, at June 30, 2009 and both were \$23.0 million at December 31, 2008. In accordance with SFAS 133, the FMBSs are classified and accounted for as non-designated derivative instruments, with gains and losses recorded in current earnings. As of June 30, 2009 and December 31, 2008, the related fair value adjustment for marking these FMBSs to market resulted in an asset of \$0.6 million and a liability of \$0.9 million, respectively. For the three and six months ended June 30, 2009, we recognized income of \$0.8 million and \$1.5 million, respectively, relating to marking these FMBSs to market. For the three and six months ended June 30, 2008, we recognized income of \$0.6 million and \$1.0 million, respectively, relating to marking these FMBSs to market.

The table below shows the level and measurement of assets and liabilities measured on a recurring basis at June 30, 2009:

Description of asset or liability (In thousands)	Fair Value Measurements June 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		\$		
Mortgage loans held for sale	\$ (177)	-	\$ (177)	\$ -
Forward sales of mortgage-backed securities	1,007	-	1,007	-
Interest rate lock commitments	(220)	-	(220)	-
Best-efforts contracts	(177)	-	(177)	-
		\$		
Total	\$ 433	-	\$ 433	\$ -

The table below shows the level and measurement of assets and liabilities measured on a recurring basis at December 31, 2008:

Description of asset or liability (In thousands)	Fair Value Measurements December 31, 2008	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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(Level 1)

			\$		\$
Mortgage loans held for sale	\$1,464	-	\$1,464	-	
Forward sales of mortgage-backed securities	(1,104)	-	(1,104)	-	
Interest rate lock commitments	638	-	638	-	
Best-efforts contracts	73	-	73	-	
			\$		\$
Total	\$1,071	-	\$1,071	-	

Assets Measured on a Non-Recurring Basis

The Company assesses inventory for recoverability on a quarterly basis 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. During this review we identify communities whose carrying values may exceed their undiscounted cash flows. For those communities deemed to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the communities exceeds the fair value of the communities.

Our determination of fair value is based on projections and estimates, which are Level 3 measurements according to SFAS 157. Our analysis is completed at a phase level within each community; therefore, changes in local conditions may affect one or several of our communities. For all of the categories discussed below, the key assumptions relating to the valuations are dependent on project-specific local market and/or community conditions and are inherently uncertain. Because each inventory asset is unique, there are numerous inputs and assumptions used in our valuation techniques. Local market-specific factors that may impact these projected assumptions include:

- historical project results such as average sales price and sales pace, 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;
- current local market economic and demographic conditions and related trends and forecasts;
- and

community-specific strategies regarding speculative homes.

These and other local market-specific factors that may impact project assumptions discussed above are considered by personnel in our homebuilding divisions as they prepare or update the forecasted assumptions for each community. Quantitative and qualitative factors other than home sales prices could significantly impact our fair value measurements. The sales objectives can differ between communities, even within a given sub-market. For example, facts and circumstances in a given community may lead us to price our homes with the objective of yielding a higher sales absorption pace, while facts and circumstances in another community may lead us to price our homes to minimize deterioration in our gross margins, although it may result in a slower sales absorption pace. Furthermore, the key assumptions included in our estimated future undiscounted cash flows may be interrelated. For example, a decrease in estimated base sales price or an increase in home sales incentives may result in a corresponding increase in sales absorption pace. Additionally, a decrease in the average sales price of homes to be sold and closed in future reporting periods for one community that has not been generating what management believes to be an adequate sales absorption pace may impact the estimated cash flow assumptions of a nearby community. Changes in our key assumptions, including estimated construction and development costs, absorption pace, selling strategies, or discount rates, could materially impact future cash flow and fair value estimates.

Operating communities. For existing operating communities, the fair value of assets is measured on a quarterly basis using future undiscounted net cash flows expected to be generated by the assets based on home sales. These estimated cash flows are developed based primarily on management's assumptions relating to the specific community. The significant assumptions used to evaluate the fair value include: the timing of development and/or marketing phases; projected sales price and sales pace of each existing or planned phase within a community; the estimated land development, home construction, and selling costs of the community; overall market supply and demand; the local market; and competitive conditions. Management reviews these assumptions on a quarterly basis. While we consider available information to determine what we believe to be our best estimates as of the end of a reporting period, these estimates are subject to change in future reporting periods as facts and circumstances change. These assumptions vary widely across different communities and geographies and are largely dependent on local market conditions.

Future communities. For raw land or land under development that management anticipates will be utilized for future homebuilding activities, the fair value of assets is measured by using 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 fair value of the assets is determined based on either offers to purchase the land received from willing market participants, or using cash flow valuation techniques.

Land held for sale. Land held for sale includes land that meets all of the following six criteria, as 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 measuring the estimated fair value of land held for sale, management considers, among other things, prices for land in recent comparable sales transactions, market analysis and recent bona fide offers received from outside third parties, as well as actual contracts.

Investment in unconsolidated limited liability companies. In accordance with APB No. 18, "The Equity Method of Investments In Common Stock" ("APB 18") and SAB Topic 5.M, "Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities" ("SAB Topic M"), the Company evaluates its investment in unconsolidated limited liability companies ("LLCs") for potential impairment on a quarterly basis. If the fair value of the investment is less than the investment's carrying value and the Company has determined that the decline in value is other than temporary, the Company would write down the value of the investment to fair value. The determination of whether an investment's fair value is less than the carrying value requires management to make certain assumptions regarding the amount and timing of future contributions to the LLC, the timing of distribution of lots to the Company from the LLC, the projected fair value of the lots at the time of distribution to the Company, and the estimated proceeds from, and timing of, the sale of land or lots to third parties. In determining the fair value of investments in unconsolidated LLCs, the Company evaluates the projected cash flows associated with the LLC using a probability-weighted approach based on the likelihood of different outcomes. As of June 30, 2009, the Company used a discount rate of 16% in determining the fair value of investments in

unconsolidated LLCs. In addition to the assumptions management must make to determine if the investment's fair value is less than the carrying value, management must also use judgment in determining whether the impairment is other than temporary. The factors management considers are: (1) the length of time and the extent to which the market value has been less than cost; (2) the financial condition and near-term prospects of the Company; and (3) the intent and ability of the Company to retain its investment in the limited liability company for a period of time sufficient to allow for any anticipated recovery in market value. In situations where the investments are 100% equity financed by the partners, and the joint venture simply distributes lots to its partners, the Company evaluates "other than temporary" by preparing an undiscounted cash flow model as described in inventory above for operating communities. If such model results in positive value versus carrying value, and the fair value of the investment is less than the investment's carrying value, the Company determines that the impairment is temporary; otherwise, the Company determines that the impairment is other than temporary and impairs the investment. Because of the high degree of judgment involved in developing these assumptions, it is possible that the Company may determine the investment is not impaired in the current period but, due to passage of time or change in market conditions leading to changes in assumptions, impairment could occur.

The table below shows the level and measurement of assets and liabilities measured on a non-recurring basis for the three months ended June 30, 2009:

Description of asset or liability (In Thousands)	Fair Value Measurements June 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)			Total Losses (a)
		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)	
Inventory (b)	\$18,654	\$ -	\$ -	\$18,654	\$4,823
Investment in LLCs (c)	829	-	-	829	1,554
Total fair value measurements	\$19,483	\$ -	\$ -	\$19,483	\$6,377

(a) Represents total losses recorded during the three months ended June 30, 2009.

- (b) In accordance with SFAS 144, inventory, with a carrying value of \$23.5 million was written down to fair value of \$18.7 million, resulting in an impairment charge of \$4.8 million, which was included in land and housing costs in the Company's Unaudited Condensed Consolidated Statement of Operations for three months ended June 30, 2009. The additional \$0.2 million taken in impairment charges related to homes closed during the three months ended June 30, 2009, and therefore not included in the carrying value.
- (c) In accordance with APB 18, investment in LLCs with an aggregate carrying value of \$2.4 million were written down to their fair value of \$0.8 million, resulting in an impairment charge of \$1.6 million, which is included in land and housing costs in the Company's Unaudited Condensed Consolidated Statement of Operations for the three months ended June 30, 2009.

The table below shows the level and measurement of assets and liabilities measured on a non-recurring basis for the six months ended June 30, 2009:

Description of asset or liability (In Thousands)	Fair Value Measurements June 30, 2009	Quoted Prices in Active Markets for Identical			Total Losses (a)
		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)	

			Assets (Level 1)				
Inventory (b)	\$	\$34,861	\$	\$ -	\$	\$ -	\$ 34,861 \$ 9,293
Investment in LLCs (c)		2,494		-		-	2,494 6,808
Total fair value measurements	\$	\$37,355	\$	\$ -	\$	\$ -	\$ 37,355 \$ 16,101

(a) Represents total losses recorded during the six months ended June 30, 2009.

- (b) In accordance with SFAS 144, inventory, with a carrying value of \$44.2 million was written down to fair value of \$34.9 million, resulting in an impairment charge of \$9.3 million, which was included in land and housing costs in the Company's Unaudited Condensed Consolidated Statement of Operations for six months ended June 30, 2009. The additional \$1.4 million taken in impairment charges related to homes closed during the six months ended June 30, 2009, and therefore not included in the carrying value.
- (c) In accordance with APB 18, investment in LLCs with an aggregate carrying value of \$9.3 million were written down to their fair value of \$2.5 million, resulting in an impairment charge of \$6.8 million, which is included in land and housing costs in the Company's Unaudited Condensed Consolidated Statement of Operations for the six months ended June 30, 2009.

NOTE 5. Risk Management and Derivatives

As described in Note 4 above, in the normal course of business, our financial services segment is exposed to interest rate risk, and the Company uses derivatives to help manage this risk.

To meet the financing needs of our home-buying customers, M/I Financial Corp., our wholly-owned subsidiary ("M/I Financial"), is party to 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 133.

M/I Financial manages interest rate risk related to its IRLCs and mortgage loans held for sale through the use of 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.

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 and loans held for sale are recorded at fair value, with changes in fair value recorded in financial services revenue.

All derivatives are recognized on the balance sheet at their fair value. The total notional amount of the Company's derivatives as of June 30, 2009 was \$173.6 million. Refer to Note 4 above for further discussion surrounding our derivative instruments.

Description of Derivatives	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value (in thousands)	Balance Sheet Location	Fair Value (in thousands)
Forward sales of mortgage-backed securities	Other assets	\$1,007	Other liabilities	\$ -
Interest rate lock commitments	Other assets	-	Other liabilities	220
Best-efforts contracts	Other assets	-	Other liabilities	177
Total fair value measurements		\$1,007		\$397

Description of Derivatives	Amount of Gain (Loss) Recognized on Derivatives		Location of Gain (Loss) Recognized on Derivatives
	Three Months Ended June 30, 2009 (in thousands)	Six Months Ended June 30, 2009 (in thousands)	
Forward sales of mortgage-backed securities	\$1,501	\$2,111	Financial Services Revenue
Interest rate lock commitments	(870)	(858)	Financial Services Revenue
Best-efforts contracts	155	(250)	Financial Services Revenue
Total gain recognized on derivatives	\$ 786	\$1,003	

NOTE 6. Inventory

A summary of the Company's inventory as of June 30, 2009 and December 31, 2008 is as follows:

	June 30, 2009	December 31, 2008
(In thousands)		
Single-family lots, land and land development costs	\$293,217	\$333,651
Land held for sale	2,804	2,804
Homes under construction	175,129	150,949
Model homes and furnishings - at cost (less accumulated depreciation: June 30, 2009 - \$2,666;		
December 31, 2008 - \$2,130)	14,475	12,928
Community development district infrastructure (Note 13)	9,530	10,376
Land purchase deposits	409	1,070
Consolidated inventory not owned (Note 14)	803	4,251
Total inventory	\$496,367	\$516,029

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

Land held for sale includes land that meets all of the following criteria, as 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.

Homes under construction include homes that are finished and ready for delivery and homes in various stages of construction. As of June 30, 2009 and December 31, 2008, we had 413 homes (valued at \$41.1 million) and 431 homes (valued at \$69.6 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 7 below for additional details relating to our procedures for evaluating our inventories for impairment.

Land purchase deposits include both refundable and non-refundable amounts paid to third party sellers relating to the purchase of land. On an ongoing basis, the Company evaluates the land option agreements relating to the land purchase deposits. In the period during which the Company makes the decision not to proceed with the purchase of land under an agreement, the Company writes off any deposits and accumulated pre-acquisition costs relating to such agreement. For both the three and six months ended June 30, 2009, the Company wrote off \$1.4 million in option deposits and pre-acquisition costs. Refer to Note 7 below for additional details relating to write-offs of land option deposits and pre-acquisition costs.

NOTE 7. 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 which may have impairment indicators, 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; the estimated land development and home construction and selling costs of the community; overall market supply and demand; the local market; and competitive 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 above in Note 6, 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 the six criteria defined in SFAS 144, as discussed above in Note 6. 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.

Investments in unconsolidated limited liability companies. The Company assesses investments in unconsolidated LLCs for impairment in accordance with APB 18 and SAB Topic 5.M. 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 10.

As of June 30, 2009, we utilized discount rates ranging from 13% to 16% 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 as well as current risk free rates available in the market and estimated market risk premiums.

A summary of the Company's valuation adjustments and write-offs for the three and six months ended June 30, 2009 and 2008 is as follows:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Impairment of operating communities:				
Midwest	\$1,523	\$8,397	\$2,863	\$10,917
Florida	2,388	1,460	3,872	4,590
Mid-Atlantic	1,111	6,419	3,979	6,513
Total impairment of operating communities (a)	\$5,022	\$16,276	\$10,714	\$22,020
Impairment of future communities:				
Midwest	\$-	\$1,524	\$-	\$1,524
Florida	-	-	-	4,380
Mid-Atlantic	-	-	-	-
Total impairment of future communities (a)	\$-	\$1,524	\$-	\$5,904
Impairment of land held for sale:				
Midwest	\$-	\$358	\$-	\$358
Florida	-	10,238	-	17,473
Mid-Atlantic	-	-	-	-
Total impairment of land held for sale (a)	\$-	\$10,596	\$-	\$17,831
Option deposits and pre-acquisition costs write-offs:				
Midwest	\$520	\$1	\$523	\$25
Florida	-	2	14	133
Mid-Atlantic	864	5	879	1,054
Total option deposits and pre-acquisition costs write-offs (b)	\$1,384	\$8	\$1,416	\$1,212
Impairment of investments in unconsolidated LLCs:				
Midwest	\$-	\$176	\$72	\$176
Florida	1,554	11,300	6,736	15,048
Mid-Atlantic	-	-	-	-
Total impairment of investments in unconsolidated LLCs (a)	\$1,554	\$11,476	\$6,808	\$15,224
Total impairments and write-offs of option deposits and pre-acquisition costs	\$7,960	\$39,880	\$18,938	\$62,191

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

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

NOTE 8. Capitalized Interest

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

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Capitalized interest, beginning of period	\$ 25,923	\$ 28,522	\$ 25,836	\$ 29,212
Interest capitalized to inventory	2,520	2,694	4,279	5,223
Capitalized interest charged to cost of sales	(3,056)	(3,093)	(4,728)	(6,312)
Capitalized interest, end of period	\$ 25,387	\$ 28,123	\$ 25,387	\$ 28,123
Interest incurred	\$ 4,331	\$ 4,800	\$ 9,286	\$ 11,768

NOTE 9. 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 June 30, 2009 and December 31, 2008:

	June 30, 2009	December 31, 2008
(In thousands)		
Land, building and improvements	\$ 11,823	\$ 11,823
Office furnishings, leasehold improvements, computer equipment and computer software	24,670	21,542
Transportation and construction equipment	289	10,015
Property and equipment	36,782	43,380
Accumulated depreciation	(16,685)	(15,648)
Property and equipment, net	\$ 20,097	\$ 27,732

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

Depreciation expense (excluding expense relating to model furnishings classified in Inventory) was approximately \$1.9 million and \$2.2 million for the six month periods ended June 30, 2009 and 2008, respectively.

During the first quarter of 2009, the Company sold its airplane for \$8.0 million. The transaction was with an unrelated party. The airplane had a book value of \$8.9 million, resulting in a loss of \$0.9 million that is included in other (loss) income on the Company's Unaudited Condensed Consolidated Statement of Operations.

NOTE 10. Investment in Unconsolidated Limited Liability Companies

At June 30, 2009, 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 one of these LLCs has 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 one of these LLCs, the Company and its partner in the entity have provided the lender with environmental indemnifications and a guarantee of the completion of land development, a loan maintenance and limited payment guaranty, and guarantees of minimum net worth levels of one of the Company's subsidiaries as more fully described in Note 11 below. The Company's maximum exposure related to its investment in these entities as of June 30, 2009 is the amount invested of \$7.4 million plus letters of credit and bonds totaling \$1.4 million and the estimated possible future obligation of \$11.2 million under the guarantees and indemnifications discussed in Note 11 below. Included in the Company's investment in LLCs at June 30, 2009 and December 31, 2008 are \$0.7 million and \$0.6 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. The Company received distributions of developed lots at cost totaling less than \$0.1 million in both the three and six months ended June 30, 2009 and less than \$0.1 million and \$4.6 million in the three and six months ended June 30, 2008, respectively.

In accordance with APB 18 and SAB Topic 5M, the Company evaluates its investment in unconsolidated LLCs for potential impairment. If the fair value of the investment is less than the investment carrying value, and the Company determines the decline in value was other than temporary, the Company would write down the investment to fair value.

NOTE 11. Guarantees and Indemnifications

Warranty

The Company offers a limited warranty program (“Home Builder’s Limited Warranty”) in conjunction with its thirty-year transferable structural limited warranty, on homes closed in or after 2007. The Home Builder’s Limited Warranty covers construction defects and certain damage resulting from construction defects for a statutory period based on geographic market and state law (currently ranging from five to ten years for the states in which the Company operates) and includes a mandatory arbitration clause. Prior to this warranty program, the Company provided up to a two-year limited warranty on materials and workmanship and a twenty-year (for homes closed between 1989 and 1998) and a thirty-year (for homes closed during or after 1998) transferable limited warranty against major structural defects.

Warranty expense is accrued as the home sale is recognized and is intended to cover estimated material and outside labor costs to be incurred during the warranty period. The accrual amounts are based upon historical experience and geographic location. A summary of warranty activity for the three and six months ended June 30, 2009 and 2008 is as follows:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Warranty accrual, beginning of period	\$9,082	\$10,979	\$9,518	\$12,006
Warranty expense on homes delivered during the period	1,000	1,050	1,819	2,168
Changes in estimates for pre-existing warranties	(774)	) 456	(1,023)	) 67
Settlements made during the period	(1,776)	) (2,044)	) (2,782)	) (3,800)
Warranty accrual, end of period	\$7,532	\$10,441	\$7,532	\$10,441

Guarantees and Indemnities

In the ordinary course of business, 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 \$83.1 million and \$64.4 million were covered under the above guarantees as of June 30, 2009 and December 31, 2008, respectively. A portion of the revenue paid to M/I Financial for providing the guarantees on the above loans was deferred at June 30, 2009, and will be recognized in income as M/I Financial is released from its obligation under the guarantees. M/I Financial has not repurchased any loans under the above agreements in 2009 or 2008, but has provided indemnifications to third party investors in lieu of repurchasing certain loans. The total of these indemnified loans was approximately \$2.5 million and \$2.8 million at June 30, 2009 and December 31, 2008, respectively. 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 collectability 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 \$1.8 million and \$1.5 million as of June 30, 2009 and December 31, 2008, 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 an environmental indemnification, a loan maintenance and limited payment guaranty and a minimum net worth guarantee of one of the Company's subsidiaries in connection with outside financing provided by a lender to one of our 50% owned LLCs. Under the environmental indemnification, 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 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 June 30, 2009, the total maximum amount of future payments the Company could be required to make under the loan maintenance and limited payment guaranty was approximately \$11.2 million. Under the above guarantees and indemnifications, the LLC operating agreement provides recourse against our LLC partner for 50% of any actual liability associated with the environmental indemnification, land development completion guarantee and the loan maintenance and limited payment guaranty.

The Company has recorded a liability relating to the guarantees and indemnities described above totaling \$1.7 million and \$1.9 million at June 30, 2009 and December 31, 2008, respectively, which is management's best estimate of the fair value of the Company's liability.

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

NOTE 12. Commitments and Contingencies

At June 30, 2009, the Company had sales agreements outstanding, some of which have contingencies for financing approval, to deliver 1,106 homes, with an aggregate sales price of approximately \$260.2 million. Based on our current housing gross margin of 11.2%, less variable selling costs of 4.1% of revenue, less payments to date on homes in backlog of \$126.3 million, we estimate payments totaling approximately \$115.4 million to be made in 2009 relating to those homes.

At June 30, 2009, the Company also had options and contingent purchase agreements to acquire land and developed lots with an aggregate purchase price of approximately \$65.9 million. Purchase of such properties is contingent upon satisfaction of certain requirements by the Company and the sellers.

At June 30, 2009, the Company had outstanding approximately \$64.5 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 December 2016. Included in this total are: (1) \$35.6 million of performance bonds and \$17.2 million of performance letters of credit that serve as completion bonds for land development work in progress (including the Company's \$0.7 million share of our LLCs' letters of credit and bonds); (2) \$7.5 million of financial letters of credit, of which \$1.1 million represent deposits on land and lot purchase agreements; and (3) \$4.2 million of financial bonds.

During the first half of 2009, we accrued \$5.3 million for the repair of certain homes in Florida where certain of our subcontractors had purchased imported drywall that may be responsible for accelerated corrosion of certain metals in the home.

The Company and certain of its subsidiaries have been named as defendants in various other 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 13. 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 June 30, 2009:

Issue Date	Maturity Date	Interest Rate	Principal Amount (in thousands)
7/15/2004	12/1/2022	6.00%	\$ 4,374
7/15/2004	12/1/2036	6.25%	10,060
3/15/2007	5/1/2037	5.20%	6,890
Total CDD bond obligations issued and outstanding as of June 30, 2009			\$ 21,324

In accordance with EITF 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 \$9.5 million liability related to these CDD bond obligations as of June 30, 2009, along with the related inventory infrastructure.

NOTE 14. 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 FIN 46(R), 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. The Company does not guarantee the obligations or performance of the variable interest entity.

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 a contract. As the primary beneficiary under this contract, the Company is required to consolidate the fair value of the variable interest entity.

As of June 30, 2009 and December 31, 2008, the Company had recorded \$0.8 million and \$4.3 million, respectively, within Inventory on the Consolidated Balance Sheet, representing the fair value of land under contract. The corresponding liability has been classified as Obligation for Consolidated Inventory Not Owned in the Consolidated Balance Sheet.

NOTE 15. Universal Shelf Registration

On May 19, 2009, we raised \$52.6 million by issuing 4,475,600 shares of our common stock in a public offering, pursuant to the \$250 million universal shelf registration filed by the Company with the SEC in August 2008.

As of June 30, 2009, \$194.1 million remains available for future offerings under a \$250 million universal shelf registration. 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. The timing and amount of offerings, if any, will depend on market and general business conditions.

NOTE 16. Shareholders' Equity

The Company issued 4,475,600 shares of its common stock in a public offering on May 19, 2009. The Company raised approximately \$52.6 million from that issuance which is intended to be used for general corporate purposes.

NOTE 17. Notes Payable Banks

In January 2009, we entered into the Third Amendment to the Credit Facility to: (1) reduce the Aggregate Commitment (as defined therein) from \$250 million to \$150 million, which is then reduced to \$125 million, \$100 million and \$60 million if the Company's consolidated tangible net worth falls below \$250 million, \$200 million and \$150 million, respectively; (2) require secured borrowings based on a Secured Borrowing Base calculated as 100% of Secured Borrowing Base Cash plus 40% of the aggregated Appraised Value of the Qualified Real Property, as defined therein; (3) provide for \$65 million of availability during the Initial Period (to August 20, 2009) with three 1-month extension options; however, during the Initial Period, requires that any cash in excess of \$25 million be designated as collateral; (4) redefine consolidated tangible net worth as equal to or exceeding (i) \$100 million plus (ii) fifty percent (50%) of Consolidated Earnings (without deduction for losses and excluding the effect of any decrease in any Deferred Tax Valuation Allowance) earned for each completed fiscal quarter ending after December 31, 2008 to the date of determination, excluding any quarter in which the Consolidated Earnings are less than zero; plus (iii) the amount of any reduction or reversal in Deferred Tax Valuation Allowance for each completed fiscal quarter ending after December 31, 2008; (5) require the permitted leverage ratio not to exceed 2.00x; (6) increase the percentage of speculative units allowed based on the latest six and twelve month closings; (7) increase the limitations on joint venture investments and extensions of credit in connection with the sale of land; and (8) increase the pricing provisions.

The Company's total cash balance, both non-restricted and restricted, at June 30, 2009 was \$104.4 million. As stated above, the Credit Facility requires all homebuilding cash in excess of \$25.0 million to be designated as collateral and therefore classified as restricted cash during this interim period.

Under the Third Amendment to the Credit Facility, borrowing availability was \$40.8 million at June 30, 2009 in accordance with the borrowing base calculation. Borrowings under the Credit Facility are secured and are at the Alternate Base Rate plus a margin ranging from 350 to 425 basis points, or at the Eurodollar Rate plus a margin ranging from 450 to 525 basis points. The Alternate Base Rate is defined as the higher of the Prime Rate, the Federal Funds Rate plus 50 basis points or the one month Eurodollar Rate plus 100 basis points. At June 30, 2009, the Company's homebuilding operations had financial letters of credit totaling \$7.5 million, performance letters of credit totaling \$16.6 million, and no borrowings outstanding under the Credit Facility.

The Credit Facility also places limitations on the amount of additional indebtedness that may be incurred by the Company, limitations on the investments that the Company may make, including joint ventures and advances to officers and employees, and limitations on the aggregate cost of certain types of inventory that the Company can hold at any one time. The Company is required under the Credit Facility to maintain a certain amount of tangible net worth and, as of June 30, 2009, our tangible net worth exceeded the minimum tangible net worth required by this covenant by approximately \$235.5 million. As of June 30, 2009, the Company was in compliance with all restrictive covenants of the Credit Facility.

On April 29, 2009, M/I Financial entered into a new secured credit agreement (“MIF Credit Agreement”). This agreement replaced M/I Financial’s previous credit agreement that expired on May 21, 2009.

The MIF Credit Agreement provides M/I Financial with \$20.0 million maximum borrowing availability, with an additional \$10.0 million of availability from December 20, 2009 through January 19, 2010. The MIF Credit Agreement, which expires on May 15, 2010, is secured by certain mortgage loans. The MIF Credit Agreement also provides for limits with respect to certain loan types that can secure the borrowings under the agreement. M/I Financial shall not permit its tangible net worth to be less than the sum of (1) \$13.0 million, as of the end of any calendar month during the period beginning May 15, 2009 and ending November 30, 2009, and (2) \$13.0 million plus (a) twenty-five percent (25%) of the greater of (i) net income of M/I Financial and its subsidiaries or (ii) zero, calculated separately for each fiscal year beginning with the fiscal year ending December 31, 2009. M/I Financial shall not permit its adjusted tangible net worth (the tangible net worth less the outstanding amount of intercompany loans) to be less than the sum of (1) \$11.0 million, as of the end of any calendar month during the period beginning May 15, 2009 and ending November 30, 2009, and (2) \$11.0 million plus (a) twenty-five percent (25%) of the greater of (i) net income of M/I Financial and its subsidiaries or (ii) zero, calculated separately for each fiscal year beginning with the fiscal year ending on December 31, 2009. M/I Financial shall not permit the ratio of earnings before interest and taxes to interest expense to be less than 1.25 to 1.00. M/I Financial pays interest on each advance under the MIF Credit Agreement at a per annum rate of the greater of the floating LIBOR rate or 5.25%. As of June 30, 2009, M/I Financial was in compliance with all restrictive covenants of the MIF Credit Agreement.

On July 27, 2009, the Company entered into four secured Letter of Credit Facilities (“LOC Facilities”). Please refer to Note 23 for more information regarding these LOC Facilities.

NOTE 18. Senior Notes

As of June 30, 2009, there were \$200 million of senior notes outstanding. The indenture governing our senior notes contains restrictive covenants that limit, among other things, the ability of the Company to pay dividends on common and preferred shares, or repurchase any shares. If our “consolidated restricted payments basket,” as defined in the indenture governing our senior notes, is less than zero, we are restricted from making certain payments, including dividends, as well as from repurchasing any shares. At June 30, 2009, our restricted payments basket was (\$141.9) million. As a result of this deficit, we are currently restricted from paying dividends on our common shares and our 9.75% Series A Preferred Shares, and from repurchasing any shares under our common shares repurchase program that was authorized by our Board of Directors in November 2005. These restrictions do not affect our compliance with any of the covenants contained in the Credit Facility and will not permit the lenders under the Credit Facility to accelerate the loans. The Credit Facility discussed above in Note 17 prohibits the early repurchase of such senior notes.

NOTE 19. Loss Per Share

Loss per share (“EPS”) is calculated based on the weighted average number of common shares outstanding during each period. The difference between basic and diluted shares outstanding is due to the effect of dilutive stock options and deferred compensation. There are no adjustments to net loss necessary in the calculation of basic or diluted earnings per share. The table below presents information regarding basic and diluted loss per share for the three months ended June 30, 2009 and 2008.

		Three Months Ended June 30,			
(In thousands, except per share amounts)		2009		2008	
	Loss	Shares	EPS	Loss	Shares
					EPS

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Basic loss from continuing operations	\$(19,902)			\$(91,250)		
Less: preferred stock dividends	-			2,438		
Loss to common shareholders from continuing operations	\$(19,902)	15,790	\$(1.26)	\$(93,688)	14,016	\$(6.69)
Effect of dilutive securities:						
Stock option awards		-			-	
Deferred compensation awards		-			-	
Diluted loss to common shareholders from continuing operations	\$(19,902)	15,790	\$(1.26)	\$(93,688)	14,016	\$(6.69)
Anti-dilutive stock equivalent awards not included in the calculation of diluted loss per share		1,780			1,471	

Six Months Ended
June 30,(In thousands, except per
share amounts)

	Loss	2009 Shares	EPS	Loss	2008 Shares	EPS
Basic loss from continuing operations	\$(48,031)			\$(111,400)		
Less: preferred stock dividends	-			4,875		
Loss to common shareholders from continuing operations	\$(48,031)	14,913	\$(3.22)	\$(116,275)	14,012	\$(8.30)
Effect of dilutive securities:						
Stock option awards		-			-	
Deferred compensation awards		-			-	
Diluted loss to common shareholders from continuing operations	\$(48,031)	14,913	\$(3.22)	\$(116,275)	14,012	\$(8.30)
Anti-dilutive stock equivalent awards not included in the calculation of diluted loss per share		1,678			1,399	

NOTE 20. Income Taxes

Deferred federal and state income tax assets primarily represent the deferred tax benefits arising from temporary differences between book and tax income which will be recognized in future years as an offset against future taxable income. These assets were largely generated as a result of inventory impairments that the Company incurred in 2006, 2007, 2008 and 2009. If, for some reason, the combination of future years' income (or loss), combined with the reversal of the timing differences, results in a loss, such losses can be carried back to prior years or carried forward to future years to recover the deferred tax assets.

In accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"), the Company evaluates its deferred tax assets, including net operating losses, to determine if a valuation allowance is required. SFAS 109 requires that companies assess whether a valuation allowance should be established based on the consideration of all available evidence using a "more likely than not" standard. In making such judgments, significant weight is given to evidence that can be objectively verified. SFAS 109 provides that a cumulative loss in recent years is significant negative evidence in considering whether deferred tax assets are realizable, and also restricts the amount of reliance on projections of future taxable income to support the recovery of deferred tax assets. The Company's current and prior year losses present the most significant negative evidence as to whether the Company needs to reduce its deferred tax assets with a valuation allowance. We are now in a four-year cumulative pre-tax loss position during the years 2005 through 2009. We currently believe the cumulative weight of the negative evidence exceeds that of the positive evidence and, as a result, it is more likely than not that we will not be able to utilize all of our deferred tax assets. Therefore, as of June 30, 2009, the Company has recorded a total valuation allowance of \$128.2 million against its

deferred tax assets. In 2009, we do not expect to record any additional tax benefits as the carryback has been exhausted. The accounting for deferred taxes is based upon an estimate of future results. Differences between the anticipated and actual outcomes of these future tax consequences could have a material impact on the Company's consolidated results of operations or financial position.

At June 30, 2009, the Company had a Federal net operating loss ("NOL") carryforward of approximately \$46.6 million. This Federal carryforward benefit will begin to expire in 2028. The Company also had state NOL benefits of \$10.3 million. These state carryforward benefits will begin to expire in 2022. The amount of taxable income that needs to be generated by the Company in order to realize our gross deferred tax asset is \$350.4 million.

NOTE 21. Financial Instruments

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

The following table presents the carrying amounts and fair values of the Company's financial instruments at June 30, 2009 and December 31, 2008. SFAS 157, "Fair Value Measurements," defines the fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price).

(In thousands)	June 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash, including cash in escrow	\$ 104,382	\$ 104,382	\$ 39,176	\$ 39,176
Mortgage loans held for sale	30,509	30,509	37,772	37,772
Other assets	13,964	13,824	14,282	13,813
Notes receivable	4,000	4,000	5,000	5,356
Forward sale of mortgage-backed securities	1,007	1,007	-	-
Commitments to extend real estate loans	-	-	638	638
Best-efforts contracts for committed IRLCs and mortgage loans held for sale	-	-	73	73
Liabilities:				
Notes payable - banks	19,478	19,478	35,078	35,078
Mortgage notes payable	6,304	7,344	6,442	9,819
Notes payable - other	-	-	9,857	9,857
Senior notes	199,296	159,250	199,168	105,000
Commitments to extend real estate loans	220	220	-	-
Best-efforts contracts for committed IRLCs and mortgage loans held for sale	177	177	-	-
Forward sale of mortgage-backed securities	-	-	1,104	1,104
Other liabilities	53,196	53,196	54,183	54,183
Off-Balance Sheet Financial Instruments:				
Letters of credit	-	505	-	727

The following methods and assumptions were used by the Company in estimating its fair value disclosures of financial instruments at June 30, 2009 and December 31, 2008:

Cash, Cash Held in Escrow and Other Liabilities. The carrying amounts of these items approximate fair value.

Mortgage Loans Held for Sale, Forward Sale of Mortgage-Backed Securities, Commitments to Extend Real Estate Loans, Best-Efforts Contracts for Committed IRLCs and Mortgage Loans Held for Sale, Notes Payable - Other and Senior Notes. The fair value of these financial instruments was determined based upon market quotes at June 30, 2009 and December 31, 2008. The market quotes used were quoted prices for similar assets or liabilities along with inputs taken from observable market data by correlation. The inputs were adjusted to account for the condition of the asset or liability.

Other Assets and Notes Receivable. The estimated fair value was determined by calculating the present value of the amounts based on the estimated timing of receipts.

Notes Payable - Banks. The interest rate currently available to the Company fluctuates with the Alternate Base Rate or Eurodollar Rate (for the Credit Facility) or LIBOR (for the MIF Credit Facility), and thus their carrying value is a reasonable estimate of fair value.

Mortgage Notes Payable. The estimated fair value was determined by calculating the present value of the future cash flows.

Letters of Credit. Letters of credit and outstanding completion bonds of \$64.5 million and \$80.1 million represent potential commitments at June 30, 2009 and December 31, 2008, respectively. The letters of credit generally expire within one or two years. The estimated fair value of letters of credit was determined using fees currently charged for similar agreements.

NOTE 22. 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 ten individual homebuilding operating segments and the results of the financial services operation; (2) the results of 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 to third parties. The homebuilding operating segments that comprise each of our reportable segments are as follows:

Midwest Columbus, Ohio Cincinnati, Ohio	Florida Tampa, Florida Orlando, Florida	Mid-Atlantic Washington, D.C. Charlotte, North Carolina Raleigh, North Carolina
Indianapolis, Indiana		
Chicago, Illinois		

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

The chief operating decision makers utilize operating loss, defined as loss before interest expense and income taxes, as a performance measure. Selected financial information for our reportable segments for the three and six months ended June 30, 2009 and 2008 is presented below:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenue:				
Midwest homebuilding	\$ 48,726	\$ 57,171	\$ 86,740	\$ 106,478
Florida homebuilding	21,147	39,109	44,793	89,641
Mid-Atlantic homebuilding	43,079	41,385	74,579	85,256
Other homebuilding - unallocated (a)	-	166	-	7,131
Financial services	3,194	3,171	6,183	8,581
Total revenue	\$ 116,146	\$ 141,002	\$ 212,295	\$ 297,087
Operating (loss) income:				
Midwest homebuilding (b)	\$ (4,232)	\$ (13,017)	\$ (9,350)	\$ (18,359)
Florida homebuilding (b)	(7,065)	(24,447)	(18,399)	(42,609)
Mid-Atlantic homebuilding (b)	(2,143)	(8,027)	(6,003)	(10,233)
Other homebuilding - unallocated (a)	-	1	-	502
Financial services	1,485	1,114	2,836	4,593
Less: Corporate selling, general and administrative expense (c)	(6,117)	(6,947)	(10,979)	(13,091)
Total operating loss	\$ (18,072)	\$ (51,323)	\$ (41,895)	\$ (79,197)
Interest expense:				
Midwest homebuilding	\$ 919	\$ 937	\$ 2,443	\$ 2,719
Florida homebuilding	392	289	1,088	1,511
Mid-Atlantic homebuilding	444	778	1,370	2,071
Financial services	56	102	106	244
Total interest expense	\$ 1,811	\$ 2,106	\$ 5,007	\$ 6,545
Other (loss) income (d)	-	-	(941)	5,555
	\$ (19,883)	\$ (53,429)	\$ (47,843)	\$ (80,187)

Loss from continuing operations before
income taxes

(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) For the three months ended June 30, 2009 and 2008, the impact of charges relating to the impairment of inventory and investment in unconsolidated LLCs and the write-off of land deposits and pre-acquisition costs was \$7.9 million and \$39.9 million, respectively. These charges reduced operating income by \$2.0 million and \$10.5 million in the Midwest region, \$3.9 million and \$23.0 million in the Florida region and \$2.0 million and \$6.4 million in the Mid-Atlantic region for the three months ended June 30, 2009 and 2008, respectively.

For the six months ended June 30, 2009 and 2008, the impact of charges relating to the impairment of inventory and investment in unconsolidated LLCs and the write-off of land deposits and pre-acquisition costs was \$18.9 million and \$62.2 million, respectively. These charges reduced operating income by \$3.4 million and \$13.0 million in the Midwest region, \$10.6 million and \$41.6 million in the Florida region and \$4.9 million and \$7.6 million in the Mid-Atlantic region for the six months ended June 30, 2009 and 2008, respectively.

(c) The three and six months ended June, 2009 include the impact of severance charges of \$0.7 million and \$0.8 million, respectively, and the three and six months ended June, 2008 include the impact of severance charges of \$0.9 million and \$2.0 million, respectively.

(d) Other (loss) income is comprised of the loss on the sale of the plane during the first quarter of 2009, and the gain recognized on the exchange of the Company's airplane during the first quarter of 2008.

The following table shows total assets by segment as of June 30, 2009 and December 31, 2008:

At June 30, 2009					
(In thousands)	Midwest	Florida	Mid-Atlantic	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	\$ 266	\$ 25	\$ 118	\$ -	\$ 409
Inventory	243,145	88,993	163,820	-	495,958
Investments in unconsolidated entities	6,510	922	-	-	7,432
Other assets	3,184	10,046	3,736	160,060	177,026
Total assets	\$ 253,105	\$ 99,986	\$ 167,674	\$ 160,060	\$ 680,825

At December 31, 2008					
(In thousands)	Midwest	Florida	Mid-Atlantic	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	\$ 96	\$ 32	\$ 942	\$ -	\$ 1,070
Inventory	232,853	102,500	179,606	-	514,959
Investments in unconsolidated entities	6,359	6,771	-	-	13,130
Other assets	2,758	12,284	4,720	144,367	164,129
Total assets	\$ 242,066	\$ 121,587	\$ 185,268	\$ 144,367	\$ 693,288

NOTE 23. Subsequent Events

The Company has evaluated subsequent events through July 31, 2009, which is the date these financial statements were issued. Except for the event set forth below, no material subsequent events occurred between June 30, 2009 and July 31, 2009.

On July 27, 2009, the Company entered into four secured LOC Facilities with a borrowing capacity of \$35 million. The LOC Facilities mature on September 30, 2010 and do not contain any covenants. There are, however, cross defaults to the Credit Facility discussed above in Note 17, as well as collateral requirements which the Company will cover solely with cash.

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 74,000 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 and Orlando, Florida; Charlotte and Raleigh, North Carolina; and the Virginia and Maryland suburbs of Washington, D.C. In 2008, 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

FORWARD-LOOKING STATEMENTS

Certain information included in this report or in other materials we have filed or will file with the Securities and Exchange Commission (the "SEC") (as well as information included in oral statements or other written statements made or to be made by us) contains or may contain forward-looking statements, including, but not limited to, statements regarding our future financial performance and financial condition. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements involve a number of risks and uncertainties. Any forward-looking statements that we make herein and in future reports and statements are not guarantees of future performance, and actual results may differ materially from those in such forward-looking statements as a result of various risk factors. Please see "Item 1A Risk Factors" in Part I of our Annual Report on Form 10-K for the year ended December 31, 2008 and our updates discussed in "Item 1A. Risk Factors" in Part II of this report.

Any forward-looking statement speaks only as of the date made. 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 of our forward-looking statements are expressly qualified in their entirety by the cautionary statements contained or referenced in this section.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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; indirect costs; and estimated warranty costs. All other costs are expensed as incurred. Sales incentives, including pricing discounts and financing costs paid by the Company, are recorded as a reduction of revenue in the Company’s Unaudited Condensed Consolidated Statements of Operations. Sales incentives in the form of options or upgrades are recorded in homebuilding costs 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. The revenue recognized is reduced by the fair value of the related guarantee provided to the investor. The fair value of the guarantee is recognized in revenue when the Company is released from its obligation under the guarantee. Generally, all of the financial services mortgage loans and related servicing rights are sold to third party investors within two 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. Inventory is recorded at cost, unless events and circumstances indicate that the carrying value of the land may be impaired. In addition to the costs of direct land acquisition, land development and related costs (both incurred and estimated to be incurred) and home construction costs, inventory includes capitalized interest, real estate taxes, and certain indirect costs incurred during land development and home construction. Such costs are charged to cost of sales simultaneously with revenue recognition, as discussed above. When a home is closed, we typically have not yet paid all incurred costs necessary to complete the home. As homes close, we compare the home construction budget to actual recorded costs to date to estimate the additional costs to be incurred from our subcontractors related to the home. We record a liability and a corresponding charge to cost of sales for the amount we estimate will ultimately be paid related to that home. We monitor the accuracy of such 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.

Typically, our building cycle ranges from five to six years, commencing with the acquisition of the entitled land and continuing through the land development phase and concluding with the sale, construction and closing of the home. Actual community lives will vary based on the size of the community and the associated absorption rates. Master-planned communities encompassing several phases may have significantly longer lives. Additionally, the current slow-down in the housing market has negatively impacted our sales pace, thereby also extending the lives of certain communities.

The Company assesses inventory 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. For those communities deemed to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the communities exceeds the fair value of the communities.

Our determination of fair value is based on projections and estimates. Changes in these expectations may lead to a change in the outcome of our impairment analysis. Our analysis is completed on a quarterly basis at a community level; therefore, changes in local conditions may affect one or several of our communities.

For the three months ended June 30, 2009, the company evaluated all active communities for impairment indicators. A recoverability analysis was performed for 27 communities and an impairment charge was recorded in 14 of those communities. The carrying value of those 14 impaired communities was \$38.6 million at June 30, 2009.

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

- historical project results such as average sales price and sales pace, 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;
- current local market economic and demographic conditions and related trends and forecasts; and
- community-specific strategies regarding speculative homes.

Operating communities. For existing operating communities, the recoverability of assets is measured on a quarterly basis 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 specific community. The significant assumptions used to evaluate the recoverability of assets include: the timing of development and/or marketing phases; projected sales price and sales pace of each existing or planned community; the estimated land development, home construction and selling costs of the community; overall market supply and demand; the local market; and competitive conditions. Management reviews these assumptions on a quarterly basis. While we consider available information to determine what we believe to be our best estimates as of the end of a reporting period, these estimates are subject to change in future reporting periods as facts and circumstances change. These assumptions vary widely across different communities and geographies and are largely dependent on local 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, as 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. In performing impairment evaluation for land held for sale, management considers, among other things, prices for land in recent comparable sales transactions, market analysis and recent bona fide offers received from outside third parties, as well as actual contracts. If the estimated fair value less the costs to sell an asset is less than the current carrying value, the asset is written down to its estimated fair value less costs to sell.

For all of the above categories, the key assumptions relating to the above valuations are dependent on project-specific local market and/or community conditions and are inherently uncertain. Because each inventory asset is unique, there are numerous inputs and assumptions used in our valuation techniques.

These and other local market-specific factors that may impact project assumptions discussed above are considered by personnel in our homebuilding divisions as they prepare or update the forecasted assumptions for each community. Quantitative and qualitative factors other than home sales prices could significantly impact the potential for future impairments. The sales objectives can differ between communities, even within a given sub-market. For example, facts and circumstances in a given community may lead us to price our homes with the objective of yielding a higher sales absorption pace, while facts and circumstances in another community may lead us to price our homes to minimize deterioration in our gross margins, although it may result in a slower sales absorption pace. Furthermore, the key assumptions included in our estimated future undiscounted cash flows may be interrelated. For example, a decrease in estimated base sales price or an increase in home sales incentives may result in a corresponding increase in sales absorption pace. Additionally, a decrease in the average sales price of homes to be sold and closed in future reporting periods for one community that has not been generating what management believes to be an adequate sales absorption pace may impact the estimated cash flow assumptions of a nearby community. Changes in our key assumptions, including estimated construction and development costs, absorption pace, selling strategies, or discount rates, could materially impact future cash flow and fair value estimates.

As of June 30, 2009, our projections generally assume a gradual improvement in market conditions over time, along with a gradual increase in costs. These assumed gradual increases generally begin in 2010, depending on the market and community. 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 June 30, 2009, we utilized discount rates ranging from 13% to 16% 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 as well as current risk free rates available in the market and estimated market risk premiums. For example, construction in progress inventory, which is closer to completion, will generally require a lower discount rate than land under development in communities consisting of multiple phases spanning several years of development. 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. Due to the uncertainties related to our operations and our industry as a whole as further discussed in "Item 1A. Risk Factors" in Part I of our Annual Report on Form 10-K for the year ended December 31, 2008, in Part II of our Quarterly Report on Form 10-Q for the three months ended March 31, 2009, and in "Item 1A. Risk Factors" of Part II of this report, we are unable to determine at this time if and to what extent continuing changes in our local markets will result in future impairments.

The Company adopted the provisions of SFAS 157, "Fair Value Measurements" ("SFAS 157") for certain non-financial assets and liabilities on January 1, 2009. The adoption of SFAS 157 did not change how the Company assesses inventory for recoverability in accordance with the provisions of SFAS 144.

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.

We also periodically enter into lot option arrangements with third-parties to whom we have sold our raw land inventory. We evaluate these transactions in accordance with SFAS No. 49, "Accounting for Product Financing Arrangements," and FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities" ("FIN 46(R)") to determine if we should record an asset and liability at the time we sell the land and enter into the lot option contract.

Investment in Unconsolidated Limited Liability Companies. We invest in entities that acquire and develop land for distribution to us in connection with our homebuilding operations. In our judgment, we have determined that these entities generally do not meet the criteria of variable interest entities because they have sufficient equity to finance their operations. We must use our judgment to determine if we have substantive control or exercise significant influence over these entities. If we were to determine that we have substantive control or exercise significant influence 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 ("SAB") 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 quarterly basis. If the fair value of the investment is less than the investment's carrying value and the Company has determined that the decline in value is other than temporary, the Company would write down the value of the investment to fair value. The determination of whether an investment's fair value is less than the carrying value requires management to make certain assumptions regarding the amount and timing of future contributions to the LLC, the timing of distribution of lots to the Company from the LLC, the projected fair value of the lots at the time of distribution to the Company, and the estimated proceeds from, and timing of, the sale of land or lots to third parties. In determining the fair value of investments in unconsolidated LLCs, the Company evaluates the projected cash flows associated with the LLC. As of June 30, 2009, the Company used a discount rate of 16% in determining the fair value of investments in unconsolidated LLCs. In addition to the assumptions management must make to determine if the investment's fair value is less than the carrying value, management must also use judgment in determining whether the impairment is other than temporary. The factors management considers are: (1) the length of time and the extent to which the market value has been less than cost; (2) the financial condition and near-term prospects of the Company; and (3) the intent and ability of the Company to retain its investment in the LLC for a period of time sufficient to allow for any anticipated recovery in market value. In situations where the investments are 100% equity financed by the partners, and the joint venture simply distributes lots to its partners, the Company evaluates "other than temporary" by preparing an undiscounted cash flow model as described in inventory above for operating communities. If such model results in positive value versus carrying value, and the fair value of the investment is less than the investment's carrying value, the Company determines that the impairment is temporary; otherwise, the Company determines that the impairment is other than temporary and impairs the investment. 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 – 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 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 warranties occur due to changes in the historical payment experience and differences between the actual payment pattern experienced during the period and the historical payment pattern used in our evaluation of the warranty accrual balance at the end of each quarter. Actual future warranty costs could differ from our current estimated amount.

Self-insurance. Self-insurance accruals are made for estimated liabilities associated with employee health care, Ohio workers' compensation and general liability insurance. Our self-insurance limit for employee health care is \$250,000 per claim per year for fiscal 2009, with stop loss insurance covering amounts in excess of \$250,000 up to \$2,000,000 per employee's lifetime. Our self-insurance limit for workers' compensation is \$450,000 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 a \$15.0 million deductible in the aggregate, with lower deductibles for certain types of claims. The Company records a general liability accrual for claims falling below the Company's deductible. The general liability accrual estimate is based on an actuarial evaluation of our past history of claims and other industry specific factors. The Company has recorded expenses totaling \$7.0 million and \$1.0 million, respectively, for all self-insured and general liability claims during the six months ended June 30, 2009 and 2008. Please see Note 12 to our Unaudited Condensed Consolidated Financial Statements for more information surrounding the year-to-date 2009 expenses. 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, when we first issue share-based awards, 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 ("FMBs"), use of best-efforts whole loan delivery commitments and the occasional purchase of options on FMBs in accordance with Company policy. These FMBs, options on FMBs, and IRLCs covered by FMBs are considered non-designated derivatives. The Company adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," and SAB No. 109, "Written Loan Commitments Recorded at Fair Value Through Earnings," for IRLCs entered into in 2008 and beyond. In determining fair value of IRLCs, M/I Financial considers the value of the resulting loan if sold in the secondary market. The fair value includes the price that the loan is expected to be sold for along with the value of servicing release premiums. Subsequent to inception, M/I Financial estimates an updated fair value which is compared to the initial fair value. In addition, M/I Financial uses fallout estimates which fluctuate based on the rate of the IRLC in relation to current rates. In accordance with SFAS 133 and related Derivatives Implementation Group conclusions, gains or losses are recorded in financial

services revenue. Certain IRLCs and mortgage loans held for sale are committed to third party investors through the use of best-efforts whole loan delivery commitments. 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 and loans held for sale are recorded at fair value, with changes in fair value recorded in financial services revenue.

Income Taxes—Valuation Allowance. In accordance with SFAS No. 109, “Accounting for Income Taxes” (“SFAS 109”), a valuation allowance is recorded against a deferred tax asset if, based on the weight of available evidence, it is more-likely-than-not (a likelihood of more than 50%) that some portion or the entire deferred tax asset will not be realized. The realization of a deferred tax asset ultimately depends on the existence of sufficient taxable income in either the carryback or

carryforward periods under applicable tax law. The four sources of taxable income to be considered in determining whether a valuation allowance is required include:

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

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

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

Examples of negative evidence may include:

- the existence of "cumulative losses" (defined as a pre-tax cumulative loss for the business cycle – in our case four years);
- an expectation of being in a cumulative loss position in a future reporting period;
- a carryback or carryforward period that is so brief that it would limit the realization of tax benefits;
- a history of operating loss or tax credit carryforwards expiring unused; and
- unsettled circumstances that, if unfavorably resolved, would adversely affect future operations and profit levels on a continuing basis.

In accordance with SFAS 109, the Company evaluates its deferred tax assets, including net operating losses, to determine if a valuation allowance is required. SFAS 109 requires that companies assess whether a valuation allowance should be established based on the consideration of all available evidence using a "more likely than not" standard. In making such judgments, significant weight is given to evidence that can be objectively verified. SFAS 109 provides that a cumulative loss in recent years is significant negative evidence in considering whether deferred tax assets are realizable, and also restricts the amount of reliance on projections of future taxable income to support the recovery of deferred tax assets. The Company's current and prior year losses present the most significant negative evidence as to whether the Company needs to reduce its deferred tax assets with a valuation allowance. We are now in a four-year cumulative pre-tax loss position during the years 2005 through 2009. We currently believe the cumulative weight of the negative evidence exceeds that of the positive evidence and, as a result, it is more likely than not that we will not be able to utilize all of our deferred tax assets. Therefore, as of June 30, 2009, the Company had a total valuation allowance of \$128.2 million recorded. The accounting for deferred taxes is based upon an estimate of future results. Differences between the anticipated and actual outcomes of these future tax consequences could have a material impact on the Company's consolidated results of operations or financial position.

Future adjustments to our deferred tax asset valuation allowance will be determined based upon changes in the expected realization of our net deferred tax assets. In 2009, we do not expect to record any additional tax benefits as the carryback has been exhausted. Additionally, our determination with respect to recording a valuation allowance may be further impacted by, among other things:

- additional inventory impairments;

additional pre-tax operating losses; or
the utilization of tax planning strategies that could accelerate the realization of certain deferred tax assets.

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

Income Taxes—FIN 48. 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 (benefit) provision for income taxes in the Condensed Consolidated Statements 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 ten individual homebuilding operating segments and the results of the financial services operation; (2) the results of our three homebuilding regions; and (3) the results of 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	Washington, D.C.
Cincinnati, Ohio	Orlando, Florida	Charlotte, North
		Carolina
Indianapolis, Indiana		Raleigh, North
		Carolina
Chicago, Illinois		

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

Highlights and Trends for the Three and Six Months Ended June 30, 2009

Overview

During the second quarter of 2009, we experienced our third consecutive quarter of year-over-year increases in new contracts and second quarter of year-over-year increases in backlog units since the housing market began its decline in late 2006. For the quarter, our new contracts increased 43% while our backlog units improved 26%, despite a 23% decline in active communities from a year ago. Homes delivered also increased in the second quarter of 2009 compared to 2008, which hasn't occurred since the second quarter of 2006. We believe our new contract results underscore the importance of great locations, focused quality product, excellent customer service and effective marketing. We are cautiously optimistic about this two quarter trend. While we have experienced an uptick in demand in the first half of 2009 from a more confident homebuyer, given improved affordability, historically low interest rates, and the \$8,000 federal tax credit, signs remain that indicate we have a ways to go to a full recovery in the industry. Today's current economic environment continues to yield rising unemployment, increased foreclosures, very tight credit standards and the government tax credit is set to expire on December 1, 2009.

In the current challenging environment, we believe our balance sheet, liquidity and access to capital, our commitment to customer service, our geographic presence, our diversified product lines, our experienced personnel, and our brand name all position us well for such opportunities now and in the future. At June 30, 2009, we had \$104.4 million of cash and cash equivalents (including \$76.3 million of restricted cash) on hand and approximately \$40.8 million

available under our revolving credit facility, which extends to October 2010.

When our industry recovers, we believe that we will see reduced competition from the small and mid-sized private builders, leading to our ability to increase our market share in our existing markets. We believe that the access of these private builders to capital already appears to be severely constrained. We envision that there will be fewer and more selective lenders serving our industry at that time. Those lenders likely will gravitate to the homebuilding companies that offer them the greatest security, the healthiest balance sheets and the broadest array of potential business opportunities. We believe that this reduced competition, combined with attractive long-term demographics, will reward those builders who can persevere through the current challenging environment.

Key Financial Results

For the quarter ended June 30, 2009, total revenue decreased \$24.9 million (18%) to approximately \$116.1 million when compared to the quarter ended June 30, 2008. This decrease is largely attributable to a decrease of \$13.8 million in housing revenue, from \$126.8 million in 2008 to \$113.0 million in 2009 due to a decline in the average sales price of homes delivered, along with a decrease in revenue from outside land sales of \$10.9 million. The average sales price of homes delivered decreased 15%, from \$272,000 for the quarter ended June 30, 2008 to \$230,000 for the quarter ended June 30, 2009. Homes delivered increased 6%, from 466 in the second quarter of 2008 to 492 in the same period of 2009. Our financial services revenue remained the same for the quarter ended June 30, 2009 as the quarter ended June 30, 2008 at \$3.2 million. There was a 12% increase in the number of loans originated, from 382 in 2008 to 426 in 2009 and a 3.2% increase in the value of such loans.

Loss before taxes for the second quarter of 2009 decreased by \$33.5 million (63%), from \$53.4 million in the second quarter of 2008 to \$19.9 million in the second quarter of 2009. During the second quarter of 2009, the Company incurred charges totaling \$7.9 million compared to \$39.9 million incurred in the second quarter of 2008, related to the impairment of inventory, investment in unconsolidated LLCs and abandoned land transaction costs. Excluding the impact of the above-mentioned charges, as well as \$2.9 million of other non-operating charges (drywall warranty issues of \$1.3 million, bad debt expense of \$1.0 million and severance of \$0.7 million), the Company had a pre-tax loss of \$9.0 million in the second quarter of 2009, which represents a \$3.6 million improvement from 2008's pre-tax loss of \$12.6 million (exclusive of aforementioned impairments and \$0.9 million of severance). The improvement from 2008 was primarily driven by lower selling, general and administrative expenses, offset in part by lower operating gross margin dollars. The second quarter operating gross margin was 13.6% compared to 2008's 13.3%. While the percentage was up, the dollar decline was due to the decline in average closing price discussed above. Selling expenses decreased by \$3.5 million (26%) for the quarter ended June 30, 2009 when compared to the quarter ended June 30, 2008, primarily due to (1) a \$1.3 million decrease in variable selling expenses; (2) a \$0.9 million decrease in model home expenses; (3) a \$0.6 million decrease in advertising expenses; (4) a \$0.3 million in payroll-related expenses; and (5) a \$0.3 million decrease in miscellaneous expenses. Additionally, general and administrative expenses decreased \$0.7 million (4%) from the second quarter of 2008 to the second quarter of 2009 primarily due to (1) a decrease of \$1.2 million in payroll and incentive expenses; (2) a decrease of \$0.8 million in professional fees; and (3) a decrease of \$0.1 million in miscellaneous expenses. These decreases were partially offset by an increase of \$1.4 million in abandoned projects and deposit write-offs; and by the bad debt expense mentioned above. Please see the table set forth below reconciling non-GAAP measures.

For the six months ended June 30, 2009, total revenue decreased \$84.8 million (29%) compared to the first half of 2008. This decrease is attributable to a decrease of \$52.2 million in housing revenue, from \$257.7 million in 2008 to \$205.5 million in 2009, along with a \$23.0 million decrease in revenue from outside land sales, from \$23.7 million in the first half of 2008 to \$0.7 million in the first half of 2008. The \$52.2 million decrease in housing revenue was primarily due to both a decline in homes delivered and average sales price. Homes delivered decreased 3% from 916 in the first six months of 2008 to 886 in the same period of 2009, and the average sales price of homes delivered decreased from \$281,000 to \$232,000. Financial services revenue also decreased \$2.4 million (28%), driven by a 4.9% decrease in the value of mortgage loans originated, which was partially offset by a 6% increase in the number of such loans.

Loss before taxes for the six months ended June 30, 2009 decreased \$32.4 million, from \$80.2 million in the 2008 six-month period to \$47.8 million for the first half of 2009. The \$32.4 million decrease is primarily comprised of lower impairment charges and lower selling, general and administrative costs,

which are partially offset by the decrease in other income and increase in other loss, and the increase in bad debt expense. During the first half of 2009, the Company incurred charges totaling \$18.9 million compared to \$62.2 million incurred in the first half of 2008, related to the impairment of inventory, investment in unconsolidated LLCs and abandoned land transaction costs. Excluding the impact of the above-mentioned charges as well as \$8.0 million of other non-operating charges (warranty issues of \$5.3 million, bad debt expense of \$1.0 million, severance of \$0.8 million and loss on the sale of our airplane of \$0.9 million), the Company had a pre-tax loss of \$20.9 million in the first six months of 2009, which is \$0.7 million better than the first half of 2008's pre-tax loss of \$21.6 million (exclusive of aforementioned impairments, a \$5.6 million gain on the sale of the company airplane and \$2.0 million of severance). A decline in operating gross margin dollars was offset by lower selling, general and administrative expenses as well as lower interest expense. Operating gross margin for the first half 2009 was 13.2% compared to 2008's 14.5%. This operating gross margin decline was primarily due to an 18% decrease in average closing price from \$281,000 in the first half of 2008's to \$232,000 in the first half of 2009. General and administrative expenses decreased \$6.3 million (18%) for the first half of 2009 compared to the first half of 2008 primarily due to (1) a decrease of \$3.8 million in payroll and incentive expenses; (2) a decrease of \$1.3 million in land related expenses, including abandoned projects and deposit write-offs; (3) a decrease of \$1.1 million in professional fees; and (4) a decrease of \$1.1 million of miscellaneous expenses. Partially offsetting these decreases was the bad debt expense mentioned above. Selling expenses decreased by \$8.1 million (30%) for the six months ended June 30, 2009 when compared to the six months ended June 30, 2008, primarily due to (1) a \$3.6 million decrease in

variable selling expenses; (2) a \$1.7 million decrease in model home expenses; (3) a \$1.6 million decrease in advertising expenses; (4) a \$0.5 million decrease in payroll-related expenses; and (5) a \$0.5 million decrease in sales office expenses. In the first quarter of 2009, the Company incurred a \$0.9 million loss on the sale of our company airplane while in 2008, the Company had a \$5.6 million gain on exchange of the company airplane, resulting in a \$6.4 million negative effect on the income from year to year. Please see the table set forth below reconciling non-GAAP measures below.

New contracts for the quarter ended June 30, 2009 were 759, an increase of 43% compared to 530 for the quarter ended June 30, 2008. This increase was driven by an increase in new contracts in both our Midwest and our Mid-Atlantic regions. For the six months ended June 30, 2009, new contracts increased by 342 (32%), from 1,084 in the first half of 2008 to 1,426 for the same period in 2009. We also experienced an overall reduction in our cancellation rate, going from 22% in the second quarter of 2008 to 16% in the second quarter of 2009. By region, our cancellation rates for the second quarter of 2009 versus the second quarter of 2008 were as follows: Midwest – 18% in 2009 and 23% in 2008; Florida – 18% in 2009 and 14% in 2008; and Mid-Atlantic – 11% in 2009 and 27% in 2008. The overall cancellation rates for the six months ended June 30, 2009 and 2008 were 18% and 23%, respectively. Our homes in backlog increased 26%, from 880 units at June 30, 2008 to 1,106 units at June 30, 2009.

Our mortgage company's capture rate increased from 85% for the second quarter of 2008 to approximately 88% in the second quarter of 2009. For the first half of 2009, approximately 90% of our homes delivered that were financed were through M/I Financial, compared to 83% in 2008's first half. Capture rate is influenced by financing availability and can fluctuate up or down from quarter to quarter.

We continue to deal with very weak and ever-changing 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 six months ended June 30, 2009, we recorded \$7.9 million and \$18.9 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. In 2009, we will continue to update our evaluation of the value of our inventory 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.

During the first half of 2009, we accrued \$5.3 million for the repair of certain homes in Florida where certain of our subcontractors had purchased imported drywall that may be responsible for accelerated corrosion of certain metals in the home.

The following table reconciles our gross margin and loss from continuing operations before income taxes for the three and six months ended June 30, 2009 and 2008 to operating gross margin and pre-tax loss from operations, excluding inventory impairment charges, imported drywall charges, other expense (income) and restructuring charges.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Gross margin	\$ 7,972	\$ (21,103)	\$ 5,260	\$ (17,693)
Add:				
Impairments	6,576	39,872	17,522	60,979
Warranty – Imported Drywall	1,250	-	5,250	-

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Operating gross margin	\$ 15,798	\$ 18,769	\$ 28,032	\$ 43,286
Loss from continuing operations before income taxes	\$ (19,883)	\$ (53,429)	\$ (47,843)	\$ (80,187)
Add:				
Impairments and abandonments				
administrative expense	7,960	39,880	18,938	62,191
Warranty – imported drywall	1,250	-	5,250	-
Other expense (income)	-	-	941	(5,555)
Restructuring/bad debt expense	1,658	930	1,815	1,995
Pre-tax loss from operations	\$ (9,015)	\$ (12,619)	\$ (20,899)	\$ (21,556)

We believe that the measures described above, which exclude the effect of housing inventory impairment and other non-operating matters, are useful to investors as they provide investors with a perspective on the underlying operating performance of the business by isolating the impact of charges related to such items. In addition, we use them to evaluate our performance and believe it is a widely-accepted financial measure by users of our financial statements in analyzing our operating results and provides comparability to similar calculations by our peers in the homebuilding industry. However, it should be noted that such measures are not GAAP financial measures. Due to the significance of the GAAP components excluded, such measures should not be considered in isolation or as an alternative to operating performance measures prescribed by GAAP.

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The following table shows, by segment, revenue, operating (loss) income, and interest expense for the three and six months ended June 30, 2009 and 2008, as well as the Company's loss before taxes for such periods:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenue:				
Midwest homebuilding	\$ 48,726	\$ 57,171	\$ 86,740	\$ 106,478
Florida homebuilding	21,147	39,109	44,793	89,641
Mid-Atlantic homebuilding	43,079	41,385	74,579	85,256
Other homebuilding - unallocated (a)	-	166	-	7,131
Financial services	3,194	3,171	6,183	8,581
Total revenue	\$ 116,146	\$ 141,002	\$ 212,295	\$ 297,087
Operating (loss) income:				
Midwest homebuilding (b)	\$ (4,232)	\$ (13,017)	\$ (9,350)	\$ (18,359)
Florida homebuilding (b)	(7,065)	(24,447)	(18,399)	(42,609)
Mid-Atlantic homebuilding (b)	(2,143)	(8,027)	(6,003)	(10,233)
Other homebuilding - unallocated (a)	-	1	-	502
Financial services	1,485	1,114	2,836	4,593
Less: Corporate selling, general and administrative expense (c)	(6,117)	(6,947)	(10,979)	(13,091)
Total operating loss	\$ (18,072)	\$ (51,323)	\$ (41,895)	\$ (79,197)
Interest expense:				
Midwest homebuilding	\$ 919	\$ 937	\$ 2,443	\$ 2,719
Florida homebuilding	392	289	1,088	1,511
Mid-Atlantic homebuilding	444	778	1,370	2,071
Financial services	56	102	106	244
Total interest expense	\$ 1,811	\$ 2,106	\$ 5,007	\$ 6,545
Other (loss) income (d)	-	-	(941)	5,555
Loss from continuing operations before income taxes	\$ (19,883)	\$ (53,429)	\$ (47,843)	\$ (80,187)

(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) For the three months ended June 30, 2009 and 2008, the impact of charges relating to the impairment of inventory and investment in unconsolidated LLCs and the write-off of land deposits and pre-acquisition costs was \$7.9 million and \$39.9 million, respectively. These charges reduced operating income by \$2.0 million and \$10.5 million in the Midwest region, \$3.9 million and \$23.0 million in the Florida region and \$2.0 million and \$6.4 million in the Mid-Atlantic region for the three months ended June 30, 2009 and 2008, respectively.

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For the six months ended June 30, 2009 and 2008, the impact of charges relating to the impairment of inventory and investment in unconsolidated LLCs and the write-off of land deposits and pre-acquisition costs was \$18.9 million and \$62.2 million, respectively. These charges reduced operating income by \$3.4 million and \$13.0 million in the Midwest region, \$10.6 million and \$41.6 million in the Florida region and \$4.9 million and \$7.6 million in the Mid-Atlantic region for the six months ended June 30, 2009 and 2008, respectively.

(c) The three and six months ended June, 2009 include the impact of severance charges of \$0.7 million and \$0.8 million, respectively, and the three and six months ended June, 2008 include the impact of severance charges of \$0.9 million and \$2.0 million, respectively.

(d) Other (loss) income is comprised of the loss on the sale of the plane during the first quarter of 2009, and the gain recognized on the exchange of the Company's airplane during the first quarter of 2008.

The following table shows total assets by segment:

(In thousands)	At June 30, 2009				
	Midwest	Florida	Mid-Atlantic	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	\$266	\$25	\$ 118	\$ -	\$409
Inventory	243,145	88,993	163,820	-	495,958
Investments in unconsolidated entities	6,510	922	-	-	7,432
Other assets	3,184	10,046	3,736	160,060	177,026
Total assets	\$253,105	\$99,986	\$ 167,674	\$ 160,060	\$680,825

At December 31, 2008

(In thousands)	Midwest	Florida	Mid-Atlantic	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	\$96	\$32	\$ 942	\$ -	\$ 1,070
Inventory	232,853	102,500	179,606	-	514,959
Investments in unconsolidated entities	6,359	6,771	-	-	13,130
Other assets	2,758	12,284	4,720	144,367	164,129
Total assets	\$242,066	\$121,587	\$ 185,268	\$ 144,367	\$693,288

Seasonality

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

Reportable Segments

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except as otherwise noted)	2009	2008	2009	2008
Midwest Region				
Homes delivered	240	227	416	416
Average sales price per home delivered	\$ 203	\$ 248	\$ 209	\$ 254
Revenue homes	\$ 48,726	\$ 56,371	\$ 86,740	\$ 105,678
Revenue third party land sales	\$ -	\$ 800	\$ -	\$ 800
Operating loss homes (a)	\$ (4,232)	\$ (12,671)	\$ (9,350)	\$ (17,990)
Operating (loss) income land (a)	\$ -	\$ (346)	\$ -	\$ (369)
New contracts, net	407	248	754	488
Backlog at end of period	703	463	703	463
Average sales price of homes in backlog	\$ 207	\$ 267	\$ 207	\$ 267
Aggregate sales value of homes in backlog (in millions)	\$ 145	\$ 124	\$ 145	\$ 124
Number of active communities	61	80	61	80
Florida Region				
Homes delivered	93	110	195	250
Average sales price per home delivered	\$ 228	\$ 264	\$ 227	\$ 267
Revenue homes	\$ 21,147	\$ 29,039	\$ 44,136	\$ 66,797
Revenue third party land sales	\$ -	\$ 10,070	\$ 657	\$ 22,844
Operating loss homes (a)	\$ (7,065)	\$ (14,529)	\$ (18,590)	\$ (25,804)
Operating (loss) income land (a)	\$ -	\$ (9,918)	\$ 191	\$ (16,805)
New contracts, net	113	138	224	287
Backlog at end of period	106	158	106	158
Average sales price of homes in backlog	\$ 217	\$ 278	\$ 217	\$ 278
Aggregate sales value of homes in backlog (in millions)	\$ 23	\$ 44	\$ 23	\$ 44
Number of active communities	20	25	20	25
Mid-Atlantic Region				
Homes delivered	159	129	275	250
Average sales price per home delivered	\$ 271	\$ 321	\$ 271	\$ 341
Revenue homes	\$ 43,079	\$ 41,385	\$ 74,579	\$ 85,256
Revenue third party land sales	\$ -	\$ -	\$ -	\$ -
Operating loss homes (a)	\$ (2,143)	\$ (8,027)	\$ (6,003)	\$ (10,233)
Operating loss land (a)	\$ -	\$ -	\$ -	\$ -
New contracts, net	239	144	448	309
Backlog at end of period	297	259	297	259
Average sales price of homes in backlog	\$ 309	\$ 334	\$ 309	\$ 334
Aggregate sales value of homes in backlog (in millions)	\$ 92	\$ 86	\$ 92	\$ 86
Number of active communities	25	33	25	33
Total Homebuilding Regions				
Homes delivered	492	466	886	916

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Average sales price per home delivered	\$ 230	\$ 272	\$ 232	\$ 281
Revenue homes	\$ 112,952	\$ 126,795	\$ 205,455	\$ 257,731
Revenue third party land sales	\$ -	\$ 10,870	\$ 657	\$ 23,644
Operating loss homes (a)	\$ (13,440)	\$ (35,227)	\$ (33,943)	\$ (54,027)
Operating (loss) income land (a)	\$ -	\$ (10,264)	\$ 191	\$ (17,174)
New contracts, net	759	530	1,426	1,084
Backlog at end of period	1,106	880	1,106	880
Average sales price of homes in backlog	\$ 235	\$ 289	\$ 235	\$ 289
Aggregate sales value of homes in backlog (in millions)	\$ 260	\$ 254	\$ 260	\$ 254
Number of active communities	106	138	106	138

Financial Services

Number of loans originated	426	382	772	729
Value of loans originated	\$ 90,651	\$ 87,849	\$ 163,613	\$ 171,971
Revenue	\$ 3,194	\$ 3,171	\$ 6,183	\$ 8,581
Selling, general and administrative expenses	\$ 1,709	\$ 2,056	\$ 3,347	\$ 3,987
Interest expense	\$ 56	\$ 102	\$ 106	\$ 244
Income before income taxes	\$ 1,429	\$ 1,012	\$ 2,730	\$ 4,349

(a) Amount includes impairment charges and write-off of land deposits and pre-acquisition costs for 2009 and 2008 as follows:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Midwest:				
Homes	\$ 2,043	\$ 10,098	\$ 3,458	\$ 12,641
Land	-	358	-	358
	2,043	10,456	3,458	12,999
Florida:				
Homes	3,942	12,923	10,622	24,443
Land	-	10,077	-	17,182
	3,942	23,000	10,622	41,625
Mid-Atlantic:				
Homes	1,975	6,424	4,858	7,567
Land	-	-	-	-
	1,975	6,424	4,858	7,567
Total				
Homes	\$ 7,960	\$ 29,445	\$ 18,938	\$ 44,651
Land	\$ -	\$ 10,435	\$ -	\$ 17,540
	\$ 7,960	\$ 39,880	\$ 18,938	\$ 62,191

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

Cancellation Rates

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Midwest:	18.3%	23.2%	20.6%	25.8%
Florida:	17.5%	13.8%	14.2%	15.8%
Mid-Atlantic:	11.2%	27.3%	14.3%	22.8%
Total	16.0%	22.2%	17.8%	22.5%

Three Months Ended June 30, 2009 Compared to Three Months Ended June 30, 2008

Midwest Region. For the quarter ended June 30, 2009, Midwest homebuilding revenue was \$48.7 million, a 15% decrease compared to the second quarter of 2008. The decrease was primarily due to the 18% decrease in the average sales price of homes delivered from \$248,000 in the second quarter of 2008 to \$203,000 in the second quarter of 2009. Operating loss decreased by \$8.8 million, from \$13.0 million in 2008 to \$4.2 million in 2009 primarily due to reduced impairment charges and lower selling, general and administrative costs. Excluding impairment charges of \$1.5 million and \$10.5 million for the second quarter of 2009 and 2008, respectively, our operating gross margins were 9.5% and 10.3% for those same periods in our Midwest region. The 0.8% decrease was a result of lower base prices on our Midwest homes along with an increase in the number and age of speculative homes delivered, which had

a lower profit margin compared to total homes delivered. Excluding deposit write-offs and pre-acquisition costs of \$0.5 million in the second quarter of 2009 and less than \$0.1 million in the second quarter of 2008, selling, general and administrative costs decreased \$1.6 million, going from \$8.4 million for the quarter ended June 30, 2008 to \$6.8 million for the quarter ended June 30, 2009, due to a decrease in payroll related expenses, advertising expenses, and model home expenses. For the three months ended June 30, 2009, our Midwest region new contracts increased from 248 in the first half of 2008 to 407 in the first half of 2009, and homes delivered increased from 227 in 2008 to 240 in 2009. Quarter-end backlog increased 52% in units, from 463 at June 30, 2008 to 703 at June 30, 2009. Quarter-end backlog sales value also increased, going from \$123.7 million at June 30, 2008 to \$145.3 million at June 30, 2009, with an average sales price in backlog decreasing from \$267,000 at June 30, 2008 to \$207,000 at June 30, 2009.

Florida Region. For the quarter ended June 30, 2009, Florida homebuilding revenue decreased by \$18.0 million (46%) compared to the same period in 2008. The decrease in revenue is primarily due to a decrease of \$10.1 million in revenue from outside land sales in the first quarter of 2009 compared to 2008, along with a 15% decrease in the number of homes delivered, going from 110 in the three months ended June 30, 2008, compared to 93 in the three months ended June 30, 2009. Operating loss decreased by \$17.3 million, going from \$24.4 million in 2008 to \$7.1 million in 2009 primarily due to reduced impairment charges and lower selling, general and administrative costs. Excluding impairment charges of \$3.9 million and \$1.3 million for drywall repairs for the quarter ended June 30, 2009 and \$23.0 million of impairment charges for the quarter ended June 30, 2008, our operating gross margins were 12.5% and 11.0% for those same periods in our

Florida region. Selling, general and administrative costs decreased \$1.2 million, going from \$5.7 million in the second quarter of 2008 to \$4.5 million in the second quarter of 2009 due primarily to a decrease in real estate taxes, payroll related expenses and model home expenses. For the second quarter of 2009, our Florida region new contracts decreased from 138 in 2008 to 113 in 2009. Management anticipates continued challenging conditions in our Florida markets to continue in 2009 based on the decrease in backlog units from 158 at June 30, 2008 to 106 at June 30, 2009 along with the decrease in the average sales price of homes in backlog from \$278,000 in 2008 to \$217,000 in 2009. In the second quarter of 2009, we recorded bad debt expense of \$1.0 million on a note receivable related to a piece of land we sold in Florida in 2006, and we also increased the accrual for the repair of imported drywall that may be responsible for accelerated corrosion of certain metals in the home to \$5.3 million.

Mid-Atlantic Region. In our Mid-Atlantic region, homebuilding revenue increased \$1.7 million (4%) for the quarter ended June 30, 2009 compared to the same period in 2008, from \$41.4 million in 2008 to \$43.1 million in 2009. This increase is primarily due to the increase in homes delivered from 129 in the second quarter of 2008 to 159 in the second quarter of 2009. This increase was partially offset by the 16% decrease in the average selling price of homes delivered, from \$321,000 in 2008 to \$271,000 in 2009. New contracts increased 66%, from 144 in the second quarter of 2008 to 239 in the second quarter of 2009. Operating loss decreased by \$5.9 million, from \$8.0 million in 2008 to \$2.1 million in 2009 primarily due to reduced impairment charges and lower selling, general and administrative costs. Excluding impairment charges of \$1.1 million and \$6.4 million for the second quarters of 2009 and 2008, respectively, our operating gross margins were 12.4% and 13.1% for those same periods in our Mid-Atlantic region. The slight decrease was primarily due to the decrease in the average sales price of homes delivered described above, along with an increase in the number of speculative homes delivered, which typically have a lower profit margin. Excluding deposit write-offs and pre-acquisition costs of \$0.9 million in the second quarter of 2009 and less than \$0.1 million in the second quarter of 2008, selling, general and administrative expenses decreased \$1.5 million due to a decrease in payroll related expenses, advertising expenses and model home expenses. Quarter-end backlog increased 15% in units, from 259 in the second quarter of 2008 to 297 in the second quarter of 2009, and 6% in total sales value, from \$86.5 million in the second quarter of 2008 to \$91.9 million in the second quarter of 2009, with an average sales price in backlog of \$309,000 at June 30, 2009 compared to \$334,000 at June 30, 2008.

Financial Services. For the three months ended June 30, 2009, revenue from our mortgage and title operations increased less than \$0.1 million. Loans originated increased 12% and the value of such loans increased 3%. Operating income for our financial services segment increased \$0.4 million (36%), from \$1.1 million in 2008 to \$1.5 million in 2009 primarily due to the increase in loan originations described above.

At June 30, 2009, M/I Financial had mortgage operations in all of our markets. Approximately 88% of our homes delivered during the second quarter of 2009 that were financed were through M/I Financial, compared to 85% in 2008. Capture rate is influenced by financing availability and can fluctuate up or down from quarter to quarter.

Corporate Selling, General and Administrative Expense. Corporate selling, general and administrative expenses decreased \$0.8 million (12%), from \$6.9 million in the second quarter of 2008 to \$6.1 million in the second quarter of 2009 due to a decrease of \$0.8 million in payroll related expenses.

Interest. Interest expense for the Company decreased \$0.3 million (14%) from \$2.1 million for the quarter ended June 30, 2008 to \$1.8 million for the quarter ended June 30, 2009. This decrease was primarily due to the decrease in the weighted average borrowings from \$251.1 million in the second quarter of 2008 to \$210.9 million in the second quarter of 2009, which was partially offset by a decrease in interest capitalized due primarily to a reduction in land development activities and an increase in our weighted average borrowing rate from 7.66% for the three months ended June 30, 2008 to 8.37% for the three months ended June 30, 2009.

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

Midwest Region. For the six months ended June 30, 2009, Midwest homebuilding revenue was \$86.7 million, a 19% decrease compared to the first six months of 2008. The decrease was primarily due to the 18% decrease in the average sales price of homes delivered, from \$254,000 in the first half of 2008 to \$209,000 in the first half of 2009. Operating loss decreased by \$9.0 million (49%), going from \$18.4 million in 2008 to \$9.4 million in 2009, primarily due to lower selling, general and administrative costs. Excluding impairment charges of \$2.9 million and \$13.0 million for the first six months of 2009 and 2008, respectively, our operating gross margins were 8.2% and 10.9% for those same periods in our Midwest region. The 2.7% decrease was a result of lower base prices on our Midwest homes along with an increase in the number and age of speculative homes delivered, which had a lower profit margin compared to total homes delivered. Excluding deposit write-offs and pre-acquisition costs of \$0.5 million in the first half of 2009 and less than \$0.1 million in the first half of 2008, Selling, general and administrative costs decreased \$4.0 million, going from \$17.0 million for the six months ended June 30, 2008 to \$13.0 million for the six months ended June 30, 2009, due to a decrease in payroll related expenses,

advertising expenses, model home expenses, and real estate taxes. For the six months ended June 30, 2009, our Midwest region new contracts increased 55%, from 488 in the first half of 2008 to 754 in the first half of 2009. At June 30, 2009, we had 703 homes in backlog, an increase of 52% over the 463 homes we had in backlog at June 30, 2008, and the sales value of those homes in backlog also increased, going from \$123.7 million at June 30, 2008 to \$145.3 million at June 30, 2009.

Florida Region. For the six months ended June 30, 2009, Florida homebuilding revenue decreased \$44.8 million (50%), from \$89.6 million in the first half of 2008 to \$44.8 million in the first half of 2009. The decrease in revenue is primarily due to a \$22.1 million decrease in revenue from outside land sales, from \$22.8 million in the first half of 2008 to \$0.7 million in the first half of 2009, along with a 22% decrease in the number of homes delivered, from 250 in the first half of 2008 to 195 in the first half of 2009 and a decrease in the average sales price of homes delivered from \$267,000 for the six months ended June 30, 2008 to \$227,000 for the six months ended June 30, 2009. Operating loss decreased \$24.2 million (57%), from \$42.6 million for the six months ended June 30, 2008 to \$18.4 million for the six months ended June 30, 2009. Excluding impairment charges of \$10.6 million and \$5.3 million for drywall repairs for the six months ended June 30, 2009 and \$41.5 million of impairment charges for the six months ended June 30, 2008, our operating gross margins were 12.6% and 12.3% for those same periods in our Florida region. Selling, general and administrative costs decreased \$3.9 million, going from \$12.1 million for the six months ended June 30, 2008 to \$8.2 million for the six months ended June 30, 2009, due to a decrease in payroll related expenses, advertising expenses, model home expenses, and real estate taxes. For the six months ended June 30, 2008, new contracts decreased 22%, from 287 in 2008 to 224 in 2009. There were 106 homes in backlog at June 30, 2009, a decrease of 33% compared to 158 homes in backlog at June 30, 2008. During the first six months of 2009, we accrued \$5.3 million for the repair of certain homes in Florida where certain of our subcontractors had purchased imported drywall that may be responsible for accelerated corrosion of certain metals in the home. During the first half of 2009 we also recorded bad debt expense of \$1.0 million on a note receivable related to a piece of land we sold in Florida in 2006.

Mid-Atlantic Region. For the six months ended June 30, 2009, Mid-Atlantic homebuilding revenue decreased \$10.7 million (13%) from \$85.3 million in the first half of 2008 to \$74.6 million in the first half of 2009. Driving this decrease was a 21% decrease in the average selling price of homes delivered from \$341,000 in 2008 to \$271,000 in 2009, which was partially offset by an increase of 10% in homes delivered, from 250 in 2008 to 275 in 2009. Operating loss for the six months ended June 30, 2009 was \$6.0 million, a decrease of 41% from \$10.2 million for the six months ended June 30, 2008. Excluding impairment charges of \$4.0 million and \$6.5 million for the first half of 2009 and 2008, respectively, our operating gross margins were 12.1% and 13.2% for those same periods in our Mid-Atlantic region. The 1.1% decrease is a result of reductions in sales prices, the decrease in the average sales price of homes delivered discussed above, and an increase in the number of speculative homes delivered, which typically have a lower profit margin. Selling, general and administrative expenses decreased \$3.7 million when you exclude deposit write-offs and pre-acquisition costs of \$0.9 million and \$1.1 million for the six months ended June 30, 2009 and 2008, respectively. The primary reason for this decrease was due to a decrease in payroll related expenses, advertising expenses and model home expenses. New contracts in the Mid-Atlantic region increased 45% for the six months ended June 30, 2009, from 309 in 2008 to 448 in 2009. There were 297 homes in backlog at June 30, 2009, compared to 259 at June 30, 2008, and the value of the homes in backlog also increased, from \$86.5 million in 2008 to \$91.9 million in 2009.

Financial Services. For the six months ended June 30, 2009, revenue from our mortgage and title operations decreased \$2.4 million (28%), from \$8.6 million in the first half of 2008 to \$6.2 million in the first half of 2009. Operating income for our financial services segment decreased \$1.8 million (39%), from \$4.6 million in 2008 to \$2.8 million in 2009, primarily due to a 5% decrease in the total value of loans originated, which was partially offset by a 6% increase in loan originations, from 729 in the first half of 2008 to 772 in the first half of 2009.

At June 30, 2009, M/I Financial had mortgage operations in all of our markets. Approximately 90% of our homes delivered during the first half of 2009 that were financed were through M/I Financial, compared to 83% in 2008. Capture rate is influenced by financing availability and can fluctuate up or down from quarter to quarter.

Corporate Selling, General and Administrative Expense. For the six months ended June 30, 2009, corporate general and administrative expenses decreased \$1.7 million from \$12.1 million in the first half of 2008 to \$10.4 million in the first half of 2009. This decrease was driven by a decrease of \$2.2 million in payroll and payroll related expenses. For the six months ended June 30, 2009, corporate selling expenses decreased \$0.4 million from \$1.0 million in the first half of 2008 to \$0.6 million in the first half of 2009 due to a \$0.3 million increase in advertising expenses.

Interest. Interest expense for the Company decreased \$1.5 million (23%) from \$6.5 million for the six months ended June 30, 2008 to \$5.0 million for the six months ended June 30, 2009. This decrease was primarily due to the decrease in our weighted average borrowings from \$286.5 million in the first half of 2008 to \$217.8 million in the first half of 2009, which was partially offset by a decrease in interest capitalized due primarily to a significant reduction in land development activities and an increase in our weighted average borrowing rate from 8.25% for the six months ended June 30, 2008 to 8.67% for the six months ended June 30, 2009.

LIQUIDITY AND CAPITAL RESOURCES

Operating Cash Flow Activities

Funding for our business has been provided principally by cash flow from operating activities, bank borrowings, and the public debt and equity markets. Prior to 2008, we used our cash flow from operating activities, before inventory additions, bank borrowings and the proceeds of public debt and equity offerings, to acquire additional land for new communities, fund additional expenditures for land development, fund construction costs needed to meet the requirements of our backlog, invest in unconsolidated entities, repurchase our common shares, and repay debt.

During the six months ended June 30, 2009, we generated \$40.9 million of cash from our operating activities, compared to \$109.5 million of cash from our operating activities during the first six months of 2008. The \$40.9 million net cash generated during the first half of 2009 was primarily a result of a federal tax refund totaling \$36.4 million, and a net increase in accounts payable of \$17.2 million. The net cash generated was also due to the \$7.3 million net reduction in mortgage loans held for sale due to proceeds from the sale of mortgage loans being in excess of new loan originations during the period. Partially offsetting these increases was a net decrease due to other operating activities, including \$4.2 million in accrued compensation and \$1.7 million in other liabilities.

The \$68.6 million decrease in cash generated from operating activities from the first half of 2009 compared to the first half of 2008 is primarily due to the \$63.5 million decrease in cash generated by the conversion of inventory into cash as a result of home closings as well as third-party land sales. We had \$0.7 million in third-party land sales in the first half of 2009, compared to \$23.6 million in the first half of 2008. Beginning in the second half of 2006, we began reducing our land purchases, and in the six months ended June 30, 2009, we purchased \$14.4 million of land and lots. We have entered into land option agreements in order to secure land for the construction of homes in the future. Pursuant to these land option agreements, we have provided deposits to land sellers totaling \$1.1 million as of June 30, 2009 as consideration for the right to purchase land and lots in the future, including the right to purchase \$65.9 million of land and lots during the years 2009 through 2018. We evaluate our future land purchases on an ongoing basis, taking into consideration current and projected market conditions, and negotiate terms with sellers, as necessary, based on market conditions and our existing land supply by market. At June 30, 2009, we owned or controlled through options 9,150 home sites, as compared to 9,723 at December 31, 2008.

Investing Cash Flow Activities

For the six months ended June 30, 2009, we used \$72.4 million of cash, primarily due to the addition of restricted cash, which had a balance at June 30, 2009 of \$76.3 million. Within restricted cash are the proceeds from the public offering of 4,475,600 shares of the Company's common stock that raised \$52.6 million, as discussed in Financing Activities below.

Restricted cash consists of homebuilding cash the Company had in excess of \$25.0 million at June 30, 2009, that is to be designated as collateral in accordance with the Third Amendment to the Second Amended and Restated Credit Facility dated October 6, 2006 (the "Credit Facility"). We are currently in the process of securing assets which will reduce the restriction on our cash balance. However, as mentioned below, we will be taking out four new Letters of Credit Facilities and we will cover the collateral requirements of those solely with cash.

Along with the increase in restricted cash, there was also an increase of \$3.1 million in property and equipment purchases. Partially offsetting these increases were the proceeds of \$7.9 million from the sale of our airplane.

Financing Cash Flow Activities

For the quarter ended June 30, 2009, we generated \$24.0 million of cash from financing activities. On May 19, 2009, we issued 4,475,600 shares of common stock in a public offering, netting \$52.6 million. Offsetting the proceeds from this issuance, were the repayments of \$15.6 million on our MIF Credit Facility and \$9.8 million on a mortgage note for the Company airplane which was sold in the first quarter of 2009.

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

We have incurred substantial indebtedness, and may incur substantial indebtedness in the future, to fund our homebuilding activities. We routinely monitor current operational requirements, financial market conditions, and credit relationships. We believe that our operations and borrowing resources will provide for our current and long-term liquidity requirements.

However, we continue to evaluate the impact of market conditions on our liquidity and may determine that modifications are necessary if market conditions continue to deteriorate and extend beyond our expectations. We believe that we will be able to continue to fund our current operations and meet our contractual obligations through a combination of existing cash resources and our existing sources of credit. Due to the deterioration of the credit markets and the uncertainties that exist in the economy and for home builders in general, we cannot be certain that we will be able to replace existing financing or find sources of additional financing in the future. Please refer to Item 1A. of the Company's Annual Report on Form 10-K for the year ended December 31, 2008 for further discussion of risk factors that could impact our source of funds.

Included in the table below is a summary of our available sources of cash as of June 30, 2009:

(In thousands)	Expiration Date	Outstanding Balance	Available Amount
Notes payable banks – homebuilding	10/6/2010	\$ -	\$ 40,844
Note payable bank – financial services	5/21/2009	\$ 19,478	\$ -
Senior notes	4/1/2012	\$200,000	\$ -
Universal shelf registration (a)	-	\$ -	\$194,055

(a) This shelf registration should allow us to expediently access capital markets in the future. The timing and amount of offerings, if any, will depend on market and general business conditions.

Notes Payable Banks - Homebuilding. In January 2009, we entered into the Credit Facility to: (1) reduce the Aggregate Commitment (as defined therein) from \$250 million to \$150 million, which is then reduced to \$125 million, \$100 million and \$60 million if the Company's consolidated tangible net worth falls below \$250 million, \$200 million and \$150 million, respectively; (2) require secured borrowings based on a Secured Borrowing Base calculated as 100% of Secured Borrowing Base Cash plus 40% of the aggregated Appraised Value of the Qualified Real Property, as defined therein; (3) provide for \$65 million of availability during the Initial Period (to August 20, 2009) with three 1-month extension options; however, during the Initial Period, requires that any cash in excess of \$25 million be designated as collateral; (4) redefine consolidated tangible net worth as equal to or exceeding (i) \$100 million plus (ii) fifty percent (50%) of Consolidated Earnings (without deduction for losses and excluding the effect of any decrease in any Deferred Tax Valuation Allowance) earned for each completed fiscal quarter ending after December 31, 2008 to the date of determination, excluding any quarter in which the Consolidated Earnings are less than zero; plus (iii) the amount of any reduction or reversal in Deferred Tax Valuation Allowance for each completed fiscal quarter ending after December 31, 2008; (5) require the permitted leverage ratio not to exceed 2.00x; (6) increase the percentage of speculative units allowed based on the latest six and twelve month closings; (7) increase the limitations on joint venture investments and extensions of credit in connection with the sale of land; and (8) increase the pricing provisions.

Our Credit Facility has key financial and other covenants, including:

requiring us to maintain tangible net worth ("Minimum Net Worth") of at least (1) \$100 million plus (2) 50% of consolidated earnings (without deduction for losses and excluding the effect of any decreases in any deferred tax valuation allowance) earned for each completed fiscal quarter ending after December 31, 2008 to the date of determination, excluding any quarter in which the consolidated earnings are less than zero plus (3) the amount of any reduction or reversal in deferred tax valuation allowance for each completed fiscal quarter ending after December 31, 2008;

Maintaining a leverage ratio not in excess of 2.00 to 1.00;

requiring adjusted cash flow from operations to be greater than 1.50x, or requiring us to maintain unrestricted cash of more than \$25 million;

prohibiting secured indebtedness from exceeding \$25 million;

prohibiting the net book value of our land and lots where construction of a home has not commenced, less the lesser of 25% of tangible net worth or prior six month sales times average book value of a finished lot, from exceeding 125% of tangible net worth plus 50% of the aggregate outstanding subordinated debt (the “Total Land Restriction”);

limiting the number of unsold housing units and model units that we may have in our inventory at the end of any fiscal quarter from exceeding the greater of 40% of the number of home closings within the twelve months ending on such date or 80% of the number of unit closings within the six months ending on such date (the “Spec and Model Home Restriction”);

limiting extension of credit on the sale of land to 10% of tangible net worth; and

limiting investment in joint ventures to 25% of tangible net worth.

The following table summarizes these covenant thresholds pursuant to the Credit Facility, and our compliance with such covenants:

Financial Covenant		Covenant Requirement (dollars in millions, except ratios and spec homes)	Actual
Minimum Net Worth (1)	=	\$ 100.0	\$ 335.5
Leverage Ratio (2)	≤	2.00 to 1.00	0.71 to 1.00
Adjusted Cash Flow Ratio (3)	≥	1.50 to 1.00	6.10 to 1.00
Permitted Debt Based on Borrowing Base	≤	\$ 40.8	\$ 0.0
Total Land Restriction	≤	\$ 419.4	\$ 212.2
Spec and Model Homes Restriction	≤	798	470

- (1) Minimum Net Worth (called “Actual Consolidated Tangible Net Worth” in the Credit Agreement) was calculated based on the stated amount of our consolidated equity less intangible assets of \$3.6 million as of June 30, 2009.
- (2) Repayment guarantees are included in the definition of Indebtedness for purposes of calculating the Leverage Ratio.
- (3) If the adjusted cash flow ratio is below 1.50X, then the Company shall maintain unrestricted cash in an amount not less than \$25 million.

At June 30, 2009, the Company’s homebuilding operations did not have any outstanding borrowings, had financial letters of credit outstanding totaling \$7.5 million and had performance letters of credit outstanding totaling \$16.6 million under the Credit Facility. The Credit Facility provides for a maximum borrowing amount of \$150 million. Under the terms of the Credit Facility, the \$150 million capacity includes a maximum amount of \$100 million in outstanding letters of credit. Borrowing availability is determined based on the lesser of: (1) Credit Facility loan capacity less Credit Facility borrowings (including cash borrowings and letters of credit) or (2) the calculated maximum secured borrowing base cash plus Qualified Real Property, less the actual borrowing.

As of June 30, 2009, borrowing availability under the amended Credit Facility was \$40.8 million in accordance with the borrowing base calculation. Borrowings under the Credit Facility are at the Alternate Base Rate plus a margin ranging from 350 to 425 basis points, or at the Eurodollar Rate plus a margin ranging from 450 to 525 basis points. The Alternate Base Rate is defined as the higher of the Prime Rate, the Federal Funds Rate plus 50 basis points or the one month Eurodollar Rate plus 100 basis points. The Company had \$76.3 million of cash that was designated as collateral and classified as restricted cash in accordance with the covenants of the Credit Facility, as described in Investing Cash Flow Activities above. As of June 30, 2009, the Company was in compliance with all restrictive covenants of the Credit Facility. We are currently in the process of securing assets which will reduce the restriction on our cash balance. However, as mentioned below, we will be taking out four new Letters of Credit Facilities (“LOC Facilities”) and we will cover the collateral requirements of those solely with cash.

On July 27, 2009, the Company entered into four secured Letter of Credit Facilities (“LOC Facilities”) with a borrowing capacity of \$35 million. The LOC Facilities mature on September 30, 2010 and do not contain any covenants. There are, however, cross defaults to the Credit Facility discussed above, as well as collateral requirements which the Company will cover solely with cash.

We continue to operate in a challenging economic environment, and our ability to comply with our debt covenants may be affected by economic or business conditions beyond our control. However, we believe that cash flow from operating activities, together with available borrowing options and other sources of liquidity, will be sufficient to fund currently anticipated working capital, planned capital spending and debt service requirements for at least the next twelve months.

Note Payable Bank – Financial Services. On April 29, 2009, M/I Financial entered into a new secured credit agreement (“MIF Credit Agreement”). This agreement replaced M/I Financial’s previous credit agreement that expired on May 21, 2009.

The MIF Credit Agreement provides M/I Financial with \$20.0 million maximum borrowing availability, with an additional \$10.0 million of availability from December 20, 2009 through January 19, 2010. The MIF Credit Agreement, which expires on May 15, 2010, is secured by certain mortgage loans. The MIF Credit Agreement also provides for limits with respect to certain loan types that can secure the borrowings under the agreement. M/I Financial shall not permit its tangible net worth to be less than the sum of (1) \$13.0 million, as of the end of any calendar month during the period beginning May 15, 2009 and ending November 30, 2009, and (2) \$13.0 million plus (a) twenty-five percent (25%) of the greater of (i) net income of M/I Financial and its subsidiaries or (ii) zero, calculated separately for each fiscal year beginning with the fiscal year ending December 31, 2009. M/I Financial shall not permit its adjusted tangible net worth (the tangible net worth less the outstanding amount of intercompany loans) to be less than the sum of (1) \$11.0 million, as of the end of any calendar month during the period beginning May 15, 2009 and ending November 30, 2009, and (2) \$11.0 million plus (a) twenty-five percent (25%) of the greater of (i) net income of M/I Financial and its subsidiaries or (ii) zero, calculated separately for each fiscal year beginning with the fiscal year ending on December 31, 2009. M/I Financial shall not permit the ratio of earnings before interest and taxes to interest expense to be less than 1.25 to 1.00. M/I Financial pays interest on each advance under the MIF Credit Agreement at a per annum rate of the greater of the floating LIBOR rate or 5.25%.

At June 30, 2009, we had no borrowing availability under the MIF Credit Agreement. As of June 30, 2009, the Company and M/I Financial were in compliance with all restrictive covenants of the MIF Credit Agreement.

Senior Notes. At June 30, 2009, we had \$200.0 million of 6.875% senior notes outstanding. The notes are due April 2012. The Credit Facility prohibits the early repurchase of the senior notes.

The indenture governing our senior notes contains restrictive covenants that limit, among other things, the ability of the Company to pay dividends on common and preferred shares as well as the ability to repurchase any shares. If our “consolidated restricted payments basket,” as defined in the indenture governing our senior notes, is less than zero, we are restricted from making certain payments, including dividends, as well as repurchasing any shares. At June 30, 2009, our restricted payments basket was (\$141.9) million. As a result of this deficit, we are currently restricted from paying dividends on our common shares and our 9.75% Series A Preferred Shares, as well as repurchasing any shares under our common share repurchase program that was approved by our Board of Directors in November 2005.

Weighted Average Borrowings. For the three months ended June 30, 2009 and 2008, our weighted average borrowings outstanding were \$210.9 million and \$251.1 million, respectively, with a weighted average interest rate of 8.37% and 7.66%, respectively. For the six months ended June 30, 2009 and 2008, our weighted average borrowings outstanding were \$217.8 million and \$286.5 million, respectively, with a weighted average interest rate of 8.67% and 8.25%, respectively. The decrease in borrowings was primarily the result of the Company using cash generated from operations to pay down outstanding debt.

Preferred Shares. On March 15, 2007, we issued 4,000,000 depositary shares, each representing 1/1000th of a 9.75% Series A Preferred Share (the “Preferred Shares”), or 4,000 Preferred Shares in the aggregate, for net proceeds of \$96.3 million. Dividends on the Preferred Shares are non-cumulative and are paid at an annual rate of 9.75%. Dividends are payable quarterly in arrears, if declared by us, on March 15, June 15, September 15 and December 15. If there is a change of control of the Company and if the Company’s corporate credit rating is withdrawn or downgraded to a certain level (together constituting a “change of control event”), the dividends on the Preferred Shares will increase to 10.75% per year. We may not redeem the Preferred Shares prior to March 15, 2012, except following the occurrence of a change of control event. On or after March 15, 2012, we have the option to redeem the Preferred Shares in whole or in part at any time or from time to time, payable in cash of \$25 per depositary share. The Preferred Shares have no stated maturity, are not subject to any sinking fund provisions, are not convertible into any other securities and will remain outstanding indefinitely unless redeemed by us. Holders of the Preferred Shares have no voting rights, except as otherwise required by applicable Ohio law; however, in the event we do not pay dividends for an aggregate of six quarters (whether or not consecutive), the holders of the Preferred Shares will be entitled to nominate two members to serve on our Board of Directors. The Preferred Shares are listed on the New York Stock Exchange under the trading symbol “MHO-PA.”

We did not pay any dividends on the Preferred Shares in the first six months of 2009. Pursuant to certain restrictive covenants in the indenture governing our senior notes, we are currently restricted from making any further dividend payments on our common shares or the Preferred Shares. We will continue to be restricted until such time that the consolidated restricted payments basket (as defined in the indenture) has been restored or our senior notes are repaid, and our Board of Directors authorizes us to resume dividend payments. See Note 18 to our Unaudited Condensed Consolidated Financial Statements for more information concerning those restrictive covenants.

Universal Shelf Registration. On August 4, 2008, the Company filed a \$250 million universal shelf registration statement with the SEC. Pursuant to the filing, the Company may, from time to time over an extended period, offer new debt and/or equity securities. The timing and amount of offerings, if any, will depend on market and general business conditions.

On May 19, 2009, we raised \$52.6 million by issuing 4,475,600 shares of our common stock in a public offering, pursuant to the \$250 million universal shelf filed in August 2008, as further discussed above under “Financing Cash Flow Activities.” As of June 30, 2009, \$194.1 million remains available for future offerings. 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. The timing and amount of offerings, if any, will depend on market and general business conditions.

CONTRACTUAL OBLIGATIONS

During the six months ended June 30, 2009, the Company sold its airplane and used the proceeds from that sale to pay off the note payable associated with the airplane, which had a balance at December 31, 2008 of \$9.9 million.

There have been no other material changes to our contractual obligations appearing in the Contractual Obligations section of Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2008.

OFF-BALANCE SHEET ARRANGEMENTS

Our primary use of off-balance sheet arrangements is for the purpose of securing the most desirable lots on which to build homes for our homebuyers in a manner that we believe reduces the overall risk to the Company. Our off-balance sheet arrangements relating to our homebuilding operations include unconsolidated LLCs, land option agreements, guarantees and indemnifications associated with acquiring and developing land and the issuance of letters of credit and completion bonds. Additionally, in the ordinary course of business, our financial services operation issues guarantees and indemnities relating to the sale of loans to third parties.

Unconsolidated Limited Liability Companies. In the ordinary course of business, the Company periodically enters into arrangements with third parties to acquire land and develop lots. These arrangements include the creation by the Company of LLCs, with the Company's interest in these entities ranging from 33% to 50%. These entities engage in land development activities for the purpose of distributing (in the form of a capital distribution) or selling developed lots to the Company and its partners in the entity. These entities generally do not meet the criteria of variable interest entities ("VIEs"), because the equity at risk is sufficient to permit the entity to finance its activities without additional subordinated support from the equity investors; however, we must evaluate each entity to determine whether it is or is not a VIE. If an entity was determined to be a VIE, we would then evaluate whether or not we are the primary beneficiary. These evaluations are initially performed when each new entity is created and upon any events that require reconsideration of the entity.

We have determined that none of the LLCs in which we have an interest are VIEs, and we also have determined that we do not have substantive control over any of these entities; therefore, our homebuilding LLCs are recorded using the equity method of accounting. The Company believes its maximum exposure related to any of these entities as of June 30, 2009 to be the amount invested of \$7.4 million, plus letters of credit and bonds totaling \$1.4 million that serve as completion bonds for the development work in progress, and our possible future obligations under guarantees and indemnifications provided in connection with these entities, as further discussed in Note 10 and Note 11 of our Unaudited Condensed Consolidated Financial Statements.

Land Option Agreements. In the ordinary course of business, the Company enters into land option agreements in order to secure land for the construction of homes in the future. Pursuant to these land option agreements, the Company will provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices. Because the entities holding the land under the option agreement often meet the criteria for VIEs, the Company evaluates all land option agreements to determine if it is necessary to consolidate any of these entities. The Company currently believes that its maximum exposure as of June 30, 2009 related to these agreements is equal to the amount of the Company's outstanding deposits, which totaled \$1.1 million, including prepaid acquisition costs of \$0.2 million, and letters of credit of \$0.5 million.

Letters of Credit and Completion Bonds. The Company provides standby letters of credit and completion bonds for development work in progress, deposits on land and lot purchase agreements and miscellaneous deposits. As of June 30, 2009, the Company has outstanding \$64.5 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 December 2016. Included in this total are: (1) \$35.6 million of performance bonds and \$17.2 million of performance letters of credit that serve as completion bonds for land development work in progress (including the Company's \$0.7 million share of our LLCs' letters of credit and bonds); (2) \$7.5 million of financial letters of credit; and (3) \$4.2 million of financial bonds.

Guarantees and Indemnities. In the ordinary course of business, M/I Financial enters into agreements that guarantee purchasers of its mortgage loans that M/I Financial will repurchase a loan if certain conditions occur. M/I Financial has also provided indemnifications to certain third party investors and insurers in lieu of repurchasing certain loans. The risks associated with these guarantees and indemnities are offset by the value of the underlying assets, and

the Company accrues its best estimate of the probable loss on these loans. Additionally, the Company has provided certain other guarantees and indemnities in connection with the acquisition and development of land by our homebuilding operations. Refer to Note 11 of our Unaudited Condensed Consolidated Financial Statements for additional details relating to our guarantees and indemnities.

INTEREST RATES AND INFLATION

Our business is significantly affected by general economic conditions of the United States of America and, particularly, by the impact of interest rates and inflation. Higher interest rates may decrease our potential market by making it more difficult for homebuyers to qualify for mortgages or to obtain mortgages at interest rates that are acceptable to them. The impact of increased rates can be offset, in part, by offering variable rate loans with lower interest rates. In conjunction with our mortgage

financing services, hedging methods are used to reduce our exposure to interest rate fluctuations between the commitment date of the loan and the time the loan closes.

During the past year, we have experienced some detrimental effect from inflation, particularly the inflation in the cost of land that occurred over the past several years. As a result of declines in market conditions in most of our markets, in certain communities we have been unable to recover the cost of these higher land prices, resulting in lower gross margins and significant charges being recorded in our operating results due to the impairment of inventory and investments in unconsolidated LLCs, and other write-offs relating to deposits and pre-acquisition costs of abandoned land transactions. In recent years, we have not experienced a detrimental effect from inflation in relation to our home construction costs, and we have been successful in reducing certain of these costs with our subcontractors. However, unanticipated construction costs or a change in market conditions may occur during the period between the date sales contracts are entered into with customers and the delivery date of the related homes, resulting in lower gross profit margins.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk results from fluctuations in interest rates. We are exposed to interest rate risk through borrowings under our revolving credit facilities, consisting of the Credit Facility and the MIF Credit Facility, which permit borrowings of up to \$170 million as of June 30, 2009, subject to availability constraints. Additionally, M/I Financial is exposed to interest rate risk associated with its mortgage loan origination services.

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

Some IRLCs are committed to a specific third-party investor through the use of best-efforts whole loan delivery commitments matching the exact terms of the IRLC loan. The notional amount of the committed IRLCs and the best-efforts contracts was \$5.3 million and \$21.2 million at June 30, 2009 and December 31, 2008, respectively. At June 30, 2009, the fair value of the committed IRLCs resulted in a liability of \$0.2 million and the related best-efforts contracts resulted in a liability of \$0.1 million. At December 31, 2008, the fair value of the committed IRLCs resulted in a liability of \$0.1 million and the related best-efforts contracts resulted in a liability of less than \$0.1 million. For both the three and six months ended June 30, 2009, we recognized expense of \$0.1 million relating to marking these committed IRLCs and the related best-efforts contracts to market. For the three and six months ended June 30, 2008, we recognized income of less than \$0.1 million and expense of \$0.2 million, respectively, relating to marking these committed IRLCs and the related best-efforts contracts to market.

Uncommitted IRLCs are considered derivative instruments under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS 133”), and are fair value adjusted, with the resulting gain or loss recorded in current earnings. At June 30, 2009 and December 31, 2008, the notional amount of the uncommitted IRLCs was \$65.8 million and \$25.4 million, respectively. The fair value adjustment related to these uncommitted IRLCs, which is based on quoted market prices, resulted in a liability of less than \$0.1 million and an asset of \$0.8 million at June 30, 2009 and December 31, 2008, respectively. For the three and six months ended June 30, 2009, we recognized expense of \$0.6 million and \$0.8 million, respectively, relating to marking the uncommitted IRLCs to market. For the three and six months ended June 30, 2008, we recognized expense of \$0.3 million and income of \$0.5 million, respectively, relating to marking the uncommitted IRLCs to market.

Forward Sales of Mortgage-Backed Securities. Forward sales of mortgage-backed securities (“FMBSs”) are used to protect uncommitted IRLC loans against the risk of changes in interest rates between the lock date and the funding date. FMBSs related to uncommitted IRLCs are classified and accounted for as non-designated derivative instruments and are recorded at fair value, with gains and losses recorded in current earnings. At June 30, 2009 and December 31, 2008, the notional amount under these FMBSs was \$67.0 million and \$14.0 million, respectively, and the related fair value adjustment, which is based on quoted market prices, resulted in an asset of \$0.4 million and a liability of \$0.2 million, respectively. For the three and six months ended June 30, 2009, we recognized income of \$0.7 million and \$0.6 million, respectively, relating to marking these FMBSs to market. For the three and six months ended June 30, 2008, we recognized income of \$0.6 million and \$0.3 million, respectively, relating to marking these FMBSs to market.

Mortgage Loans Held for Sale: Mortgage loans held for sale consist primarily of single-family residential loans collateralized by the underlying property. During the intervening period between when a loan is closed and when it is sold to an investor, the interest rate risk is covered through the use of a best-efforts contract or by FMBSs.

The notional amount of the best-efforts contracts and related mortgage loans held for sale was \$7.2 million and \$13.6 million at June 30, 2009 and December 31, 2008, respectively. The fair value of the best-efforts contracts and related

mortgage loans held for sale resulted in a net liability of \$0.4 million and a net asset of \$0.2 million at June 30, 2009 and December 31, 2008, respectively. For the three and six months ended June 30, 2009, we recognized expense of \$0.3 million and \$0.6 million, respectively, relating to marking these best-efforts contracts and the related mortgage loans held for sale to market. For the three and six months ended June 30, 2008, we recognized income of \$0.1 million and expense of less than \$0.1 million, respectively, relating to marking these best-efforts contracts and the related mortgage loans held for sale to market.

The notional amounts of the FMBSs and the related mortgage loans held for sale were \$23.0 million and \$23.6 million, respectively, at June 30, 2009 and both were \$23.0 million at December 31, 2008. In accordance with SFAS 133, the FMBSs are classified and accounted for as non-designated derivative instruments, with gains and losses recorded in current earnings. As of June 30, 2009 and December 31, 2008, the related fair value adjustment for marking these FMBSs to market resulted in an asset of \$0.6 million and a liability of \$0.9 million, respectively. For the three and six months ended June 30, 2009, we recognized income of \$0.8 million and \$1.5 million, respectively, relating to marking these FMBSs to

market. For the three and six months ended June 30, 2008, we recognized income of \$0.6 million and \$1.0 million, respectively, relating to marking these FMBSs to market.

The following table provides the expected future cash flows and current fair values of borrowings under our credit facilities and mortgage loan origination services that are subject to market risk as interest rates fluctuate, as of June 30, 2009:

(Dollars in thousands)	Weighted Average Interest	Expected Cash Flow by Period							Fair Value
	Rate	2009	2010	2011	2012	2013	Thereafter	Total	6/30/09
ASSETS:									
Mortgage loans held for sale:									
Fixed rate	4.78%	\$31,213	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,213	\$ 30,509
Variable rate	N/A	-	-	-	-	-	-	-	-
LIABILITIES:									
Long-term debt - fixed rate	6.91%	\$ 144	\$ 307	\$ 332	\$ 220,360	\$ 391	\$ 4,770	\$ 206,304	\$ 166,594
Long-term debt - variable rate	5.25%	-	19,478	-	-	-	-	19,478	19,478

ITEM 4: CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

During the second quarter of 2009, certain changes in responsibility for performing internal control procedures occurred as a result of workforce reductions. Management has evaluated these changes in our internal control over financial reporting, and believes that we have taken the necessary steps to establish and maintain effective internal control over financial reporting during the period of change.

It should be noted that the design of any system of controls is based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. In addition, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

On March 14, 2008, a former employee filed a complaint in the United States District Court, Middle District of Florida, on behalf of himself and those similarly situated, against M/I Homes, Inc., alleging that he and other construction superintendents were misclassified as exempt and not paid overtime compensation under the Fair Labor Standards Act and seeking equitable relief, damages and attorneys' fees. Six other individuals have filed consent forms in order to join the action. The Company filed an answer on or about August 21, 2008 and intends to vigorously defend against the claims.

On March 5, 2009, a resident of Florida and an owner of one of our homes filed a complaint in the United States District Court for the Southern District of Ohio, on behalf of himself and other similarly situated owners and residents of homes in the United States or alternatively in Florida, against M/I Homes, Inc., and certain other identified and unidentified manufacturers, builders, and suppliers of drywall. The plaintiff alleges that M/I Homes built his home with defective drywall, manufactured by certain of the defendants, that contains sulfur or other organic compounds capable of harming the health of individuals and damaging metals. The plaintiff alleges physical and economic damages and seeks legal and equitable relief, medical monitoring and attorney's fees. The Company filed a responsive pleading on or about April 30, 2009 and intends to vigorously defend against the claims. Please refer to Note 12 of the Company's Unaudited Condensed Consolidated Financial Statements for further information on this matter.

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

recorded estimates and, therefore, have a material adverse effect on the Company's net income for the periods in which the matters are resolved.

Item 1A. Risk Factors

There have been no material changes to the risk factors appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and in Part II of our Quarterly Report on Form 10-Q for the three months ended March 31, 2009. Other factors beyond those referred to above and listed below, including factors known to us which we have not currently determined to be material, could also adversely affect us.

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

(a) Recent Sales of Unregistered Securities – None.

(b) Use of Proceeds – Not Applicable.

(c) Purchases of Equity Securities

On November 8, 2005, the Company obtained authorization from the Board of Directors to repurchase up to \$25 million worth of its outstanding common shares. The repurchase program expires on November 8, 2010, and was publicly announced on November 10, 2005. The purchases may occur in the open market and/or in privately negotiated transactions as market conditions warrant. During the three and six month periods ended June 30, 2009, the Company did not repurchase any shares. As of June 30, 2009, the Company had approximately \$6.7 million available to repurchase outstanding common shares from the Board-approved repurchase program.

Issuer Purchases of Equity Securities:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced program	Approximate dollar value of shares that may yet be purchased under the program (1\$)
April 1 to April 30, 2009	-	\$ -	-	\$6,715,000
May 1 to May 31, 2009	-	-	-	\$6,715,000
June 1 to June 30, 2009	-	-	-	\$6,715,000
Total	-	\$ -	-	\$6,715,000

(1) On November 10, 2005, the Company announced that its Board of Directors had authorized the repurchase of up to \$25 million worth of its outstanding common shares. This repurchase program expires on November 8, 2010.

Item 3. Defaults Upon Senior Securities - None.

Item 4. Submission of Matters to a Vote of Security Holders

On May 5, 2009, the Company held its 2009 annual meeting of shareholders. The shareholders voted on the following proposals:

- 1) To elect three directors to serve until the 2012 annual meeting of shareholders and until their successors have been duly elected and qualified.
- 2) To approve the adoption of the M/I Homes, Inc. 2009 Annual Incentive Plan.
- 3) To approve the adoption of the M/I Homes, Inc. 2009 Long-Term Incentive Plan.
- 4) To ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the 2009 fiscal year.

The results of the voting were as follows:

1. Election of Directors

	For	Withheld
Yvette McGee Brown.	10,979,537	1,885,396
Thomas D. Igoe	10,977,092	1,887,841
J. Thomas Mason	0,775,069	2,089,864

All three directors were elected.

2. To approve the adoption of the M/I Homes, Inc. 2009 Annual Incentive Plan:

For	11,599,002
Against	354,535
Abstain	5,831

3. To approve the adoption of the M/I Homes, Inc. 2009 Long-Term Incentive Plan

For	7,548,898
Against	4,404,639
Abstain	5,831

4. To ratify the appointment of Deloitte & Touche LLP as the independent registered public accounting firm for fiscal year 2009:

For	12,823,022
Against	36,368
Abstain	5,543

The proposal was approved.

Item 5. Other Information - None.

Item 6. Exhibits

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

Exhibit Number	Description
10.1	Credit Agreement by and among M/I Financial Corp., as borrower, the lenders party thereto and Huntington National Bank, as administrative agent, dated April 29, 2009, (filed herewith).
10.2	Master Letter of Credit Facility Agreement by and between U.S. Bank National Association and M/I Homes, Inc., dated July 27, 2009, hereby incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on July 30, 2009.
10.3	Letter of Credit Pledge by and between Citibank, N.A. (together with its successors and assigns, the "Bank") and M/I Homes, Inc., dated July 27, 2009, hereby incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on July 30, 2009.
10.4	Letter of Credit Agreement by and between Regions Bank and M/I Homes, Inc., dated July 27, 2009, hereby incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on July 30, 2009.
10.5	Credit Agreement by and Between The Huntington National Bank and M/I Homes, Inc., dated July 27, 2009, hereby incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed on July 30, 2009.
31.1	Certification by Robert H. Schottenstein, Chief Executive Officer, pursuant to Item 601 of Regulation S-K as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)

- 31.2 Certification by Phillip G. Creek, Chief Financial Officer, pursuant to Item 601 of Regulation S-K as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
- 32.1 Certification by Robert H. Schottenstein, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
- 32.2 Certification by Phillip G. Creek, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)

SIGNATURES

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

M/I Homes, Inc.
(Registrant)

Date: July 31, 2009

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

Date: July 31, 2009

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

EXHIBIT INDEX

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