M I HOMES INC
Form 10-Q
July 24, 2015

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2015

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

Commission File Number 1-12434

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

Ohio	31-1210837
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes X No

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
Common shares, par value $.01 per share: 24,553,165 shares outstanding as of July 22, 2015.

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

(Dollars in thousands, except par values)	June 30, 2015	December 31, 2014
ASSETS:		
Cash and cash equivalents	$21,773	$ 15,535
Restricted cash	5,174	6,951
Mortgage loans held for sale	75,063	92,794
Inventory	1,040,944	918,589
Property and equipment - net	11,819	11,490
Investment in unconsolidated joint ventures	28,357	27,769
Deferred income taxes	81,054	94,412
Other assets	50,805	43,870
TOTAL ASSETS	$1,314,989	$ 1,211,410
LIABILITIES AND SHAREHOLDERS’ EQUITY		
LIABILITIES:		
Accounts payable	$90,643	$ 75,338
Customer deposits	18,438	11,759
Other liabilities	67,194	79,723
Community development district (“CDD”) obligations	1,496	2,571
Obligation for consolidated inventory not owned	14,115	608
Notes payable bank - homebuilding operations	105,600	30,000
Notes payable bank - financial services operations	69,681	85,379
Notes payable - other	8,230	9,518
Convertible senior subordinated notes due 2017	57,500	57,500
Convertible senior subordinated notes due 2018	86,250	86,250
Senior notes	228,669	228,469
TOTAL LIABILITIES	$747,816	$ 667,115
Commitments and contingencies (Note 6)	—	—
SHAREHOLDERS’ EQUITY:		
Preferred shares - $.01 par value; authorized 2,000,000 shares; 2,000 shares issued and outstanding at both June 30, 2015 and December 31, 2014	$48,163	$ 48,163
Common shares - $.01 par value; authorized 58,000,000 shares at both June 30, 2015 and December 31, 2014; issued 27,092,723 shares at both June 30, 2015 and December 31, 2014	271	271
Additional paid-in capital	240,159	238,560
Retained earnings	329,019	308,539
Treasury shares - at cost - 2,539,558 and 2,579,813 shares at June 30, 2015 and December 31, 2014, respectively	(50,439)	(51,238)
TOTAL SHAREHOLDERS’ EQUITY	$567,173	$ 544,295
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$1,314,989	$ 1,211,410

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share amounts)	2015	2014	2015	2014
Revenue	$322,856	$281,608	$586,015	$516,449
Costs and expenses:				
Land and housing	252,595	221,217	458,778	405,181
Impairment of inventory and investment in unconsolidated joint ventures	—	804	—	804
General and administrative	21,705	21,281	41,039	39,596
Selling	22,935	20,251	40,621	36,220
Equity in (income) loss of unconsolidated joint ventures	(14)	22	(212)	(40)
Interest	3,750	2,730	8,212	6,900
Total costs and expenses	300,971	266,305	548,438	488,661
Income before income taxes	21,885	15,303	37,577	27,788
Provision for income taxes	8,535	1,749	14,659	1,602
Net income	13,350	13,554	22,918	26,186
Preferred dividends	1,219	1,219	2,438	2,438
Net income to common shareholders	$12,131	$12,335	$20,480	$23,748
Earnings per common share:				
Basic	$0.49	$0.50	$0.84	$0.97
Diluted	$0.43	$0.44	$0.74	$0.85
Weighted average shares outstanding:				
Basic	24,531	24,470	24,523	24,444
Diluted	30,023	29,913	30,002	29,891

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30, 2015							
	Preferred Shares		Common Shares					
(Dollars in thousands)	Shares Outstanding	Amount	Shares Outstanding	Amount	Additional Paid-in Capital	Retained Earnings	Treasury Shares	Total Shareholders' Equity
Balance at December 31, 2014	2,000	$48,163	24,512,910	$ 271	$238,560	$308,539	$(51,238)	$ 544,295
Net income	—	—	—	—	—	22,918	—	22,918
Dividends declared to preferred shareholders	—	—	—	—	—	(2,438)	—	(2,438)
Stock options exercised	—	—	23,640	—	(129)	—	469	340
Stock-based compensation expense	—	—	—	—	1,978	—	—	1,978
Deferral of executive and director compensation	—	—	—	—	80	—	—	80
Executive and director deferred compensation distributions	—	—	16,615	—	(330)	—	330	—
Balance at June 30, 2015	2,000	$48,163	24,553,165	$ 271	$240,159	$329,019	$(50,439)	$ 567,173

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
(Dollars in thousands)	2015	2014
OPERATING ACTIVITIES:		
Net income	$22,918	$26,186
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Inventory valuation adjustments and abandoned land transaction write-offs	—	804
Equity in income of unconsolidated joint ventures	(212)	(40)
Mortgage loan originations	(333,684)	(278,410)
Proceeds from the sale of mortgage loans	350,591	298,953
Fair value adjustment of mortgage loans held for sale	824	(3,515)
Capitalization of originated mortgage servicing rights	(2,283)	(2,006)
Amortization of mortgage servicing rights	552	362
Depreciation	3,141	2,392
Amortization of debt discount and debt issue costs	1,594	1,557
Stock-based compensation expense	1,978	1,794
Deferred income tax expense	13,358	10,644
Deferred tax asset valuation allowances	—	(9,291)
Change in assets and liabilities:		
Cash held in escrow	194	7
Inventory	(108,165)	(122,616)
Other assets	(6,551)	(2,760)
Accounts payable	15,305	17,099
Customer deposits	6,679	3,757
Accrued compensation	(11,387)	(9,991)
Other liabilities	(1,062)	(1,595)
Net cash used in operating activities	(46,210)	(66,669)
INVESTING ACTIVITIES:		
Change in restricted cash	1,583	3,819
Purchase of property and equipment	(1,401)	(1,677)
Investment in unconsolidated joint ventures	(4,210)	(13,484)
Net proceeds from sale of mortgage servicing rights	—	2,135
Net cash used in investing activities	(4,028)	(9,207)
FINANCING ACTIVITIES:		
Proceeds from bank borrowings - homebuilding operations	220,700	—
Repayment of bank borrowings - homebuilding operations	(145,100)	—
(Repayment of) net proceeds from bank borrowings - financial services operations	(15,698)	(18,115)
(Principal repayments of) proceeds from notes payable-other and CDD bond obligations	(1,288)	(73)
Dividends paid on preferred shares	(2,438)	(2,438)
Debt issue costs	(40)	(40)
Proceeds from exercise of stock options	340	1,460
Net cash provided by (used in) financing activities	56,476	(19,206)
Net increase (decrease) in cash and cash equivalents	6,238	(95,082)
Cash and cash equivalents balance at beginning of period	15,535	128,725
Cash and cash equivalents balance at end of period	$21,773	$33,643

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest — net of amount capitalized	$6,696	$5,238
Income taxes	$1,278	$550
NON-CASH TRANSACTIONS DURING THE PERIOD:		
Community development district infrastructure	$(1,075)	$(1,246)
Consolidated inventory not owned	$13,507	$(507)
Distribution of single-family lots from unconsolidated joint ventures	$3,834	$6,608

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

NOTE 1. Basis of Presentation

The accompanying Unaudited Condensed Consolidated Financial Statements (the “financial statements”) of M/I Homes, Inc. and its subsidiaries (the “Company”) and notes thereto have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial information. The financial statements include the accounts of the Company. 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, 2014 (the “2014 Form 10-K”).

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during that period. Actual results could differ from these estimates and have a significant impact on the financial condition and results of operations and cash flows. With regard to the Company, estimates and assumptions are inherent in calculations relating to valuation of inventory and investment in unconsolidated joint ventures, property and equipment depreciation, valuation of derivative financial instruments, accounts payable on inventory, accruals for costs to complete inventory, accruals for warranty claims, accruals for self-insured general liability claims, litigation, accruals for health care and workers’ compensation, accruals for guaranteed or indemnified loans, stock-based compensation expense, income taxes, and contingencies. Items that could have a significant impact on these estimates and assumptions include the risks and uncertainties listed in “Item 1A. Risk Factors” in Part I of our 2014 Form 10-K, as the same may be updated from time to time in our subsequent filings with the SEC.

Impact of New Accounting Standards
In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which provides guidance for revenue recognition. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in ASC 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, “Revenue Recognition-Construction-Type and Production-Type Contracts.” ASU 2014-09’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today’s guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for the Company beginning January 1, 2017 and, at that time, the Company may adopt the new standard under the full retrospective approach or the modified retrospective approach. Early adoption is not permitted. On July 9, 2015, the FASB approved the proposal to defer the effective date of ASU 2014-09 standard by one year. Early adoption is permitted as of the original effective date, and the standard is effective for the Company beginning January 1, 2018. The Company is currently evaluating the method and impact the adoption of ASU 2014-09 will have on the Company’s consolidated financial statements and disclosures.
In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the

balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts or premiums. The recognition and measurement guidance for debt issuance costs would not be affected by the amendments in ASU 2015-03. ASU 2015-03 will be effective for the Company beginning January 1, 2016, with early adoption permitted. ASU 2015-03 is to be applied on a retrospective basis and represents a change in accounting principle. The Company is currently evaluating the impact the adoption of ASU 2015-03 may have on our consolidated financial statements or disclosures and expects adoption to impact our consolidated balance sheet but not our results of operations.

NOTE 2. Inventory and Capitalized Interest

Inventory

Inventory is recorded at cost, unless events and circumstances indicate that the carrying value of the land is impaired, at which point the inventory is written down to fair value (see Note 4 for additional details relating to our procedures for evaluating our inventories for impairment). Inventory includes the costs of land acquisition, land development and home construction, capitalized interest, real estate taxes, direct overhead costs incurred during development and home construction, and common costs that benefit the entire community, less impairments, if any.

A summary of the Company’s inventory as of June 30, 2015 and December 31, 2014 is as follows:

(In thousands)	June 30, 2015	December 31, 2014
Single-family lots, land and land development costs	$486,895	$463,198
Land held for sale	5,754	10,647
Homes under construction	444,855	371,119
Model homes and furnishings - at cost (less accumulated depreciation: June 30, 2015 - $7,082; December 31, 2014 - $7,010)	64,206	46,780
Community development district infrastructure	1,496	2,571
Land purchase deposits	23,273	23,495
Consolidated inventory not owned	14,465	779
Total inventory	$1,040,944	$918,589

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

Homes under construction include homes that are in various stages of construction. As of June 30, 2015 and December 31, 2014, we had 917 homes (with a carrying value of $157.7 million) and 979 homes (with a carrying value of $186.7 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.

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 expenses any deposits and accumulated pre-acquisition costs relating to such agreement.

Capitalized Interest

The Company capitalizes interest during land development and home construction. Capitalized interest is charged to land and housing costs and expenses as the related inventory is delivered to a third party. The summary of capitalized interest for the three and six months ended June 30, 2015 and 2014 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2015	2014	2015	2014
Capitalized interest, beginning of period	$15,542	$13,944	$15,296	$13,802
Interest capitalized to inventory	4,675	4,730	8,460	7,980
Capitalized interest charged to land and housing costs and expenses	(3,780)	(3,843)	(7,319)	(6,951)
Capitalized interest, end of period	$16,437	$14,831	$16,437	$14,831

Interest incurred	$8,425	$7,460	$16,672	$14,880

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NOTE 3. Investment in Unconsolidated Joint Ventures

Investment in Unconsolidated Joint Ventures

In order to minimize our investment and risk of land exposure in a single location, we have periodically partnered with other land developers or homebuilders to share in the land investment and development of a property through joint ownership and development agreements, joint ventures, and other similar arrangements. During the six month period ended June 30, 2015, we increased our total investment in such joint venture arrangements by $0.6 million from $27.8 million at December 31, 2014 to $28.4 million at June 30, 2015.

We use the equity method of accounting for investments in unconsolidated joint ventures over which we exercise significant influence but do not have a controlling interest. Under the equity method, our share of the unconsolidated joint ventures' earnings or loss, if any, is included in our statement of income. The Company assesses its investments in unconsolidated joint ventures for recoverability on a quarterly basis. Refer to Note 4 for additional details relating to our procedures for evaluating our investments for impairment.

For joint venture arrangements where a special purpose entity is established to own the property, we generally enter into limited liability company or similar arrangements ("LLCs") with the other partners. The Company's ownership in these LLCs as of both June 30, 2015 and December 31, 2014 ranged from 25% to 61%. These entities typically engage in land development activities for the purpose of distributing or selling developed lots to the Company and its partners in the LLC.

We believe that the Company's maximum exposure related to its investment in these unconsolidated joint ventures as of June 30, 2015 is the amount invested of $28.4 million, which is reported as Investment in Unconsolidated Joint Ventures on our Unaudited Condensed Consolidated Balance Sheets, in addition to a $2.5 million note due to the Company from one of the unconsolidated joint ventures (reported in Other Assets), although we expect to invest further amounts in these unconsolidated joint ventures as development of the properties progresses. Included in the Company's investment in unconsolidated joint ventures at June 30, 2015 and December 31, 2014 were $0.3 million and $0.2 million, respectively, of capitalized interest and other costs.

Variable Interest Entities

With respect to our investments in these LLCs, we are required, under ASC 810-10, Consolidation ("ASC 810"), to evaluate whether or not such entities should be consolidated into our financial statements. We initially perform these evaluations when each new entity is created and upon any events that require reconsideration of the entity. See Note 1, "Summary of Significant Accounting Policies - Variable Interest Entities" in the Company's 2014 Form 10-K for additional information regarding the Company's methodology for evaluating entities for consolidation.

As of June 30, 2015 and December 31, 2014, we have determined that one of the LLCs in which we have an interest meets the requirements of a variable interest entity ("VIE") due to a lack of equity at risk in the entity. However, we have determined that we do not have substantive control over the VIE as we do not have the ability to control the activities that most significantly impact its economic performance. As a result, we are not required to consolidate the VIE into our financial statements, and we instead record the VIE in Investment in Unconsolidated Joint Ventures on our Unaudited Condensed Consolidated Balance Sheets.

Land Option Agreements

In the ordinary course of business, the Company enters into land option or purchase agreements for which we generally pay non-refundable deposits. Pursuant to these land option agreements, the Company provides a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices. In accordance with ASC 810, we analyze our land option or purchase agreements to determine whether the corresponding land sellers are VIEs and, if so, whether we are the primary beneficiary, as further described in Note 1, "Summary of Significant Accounting Policies - Land Option Agreements" in the Company's 2014 Form 10-K. If we are deemed to be the primary beneficiary of the VIE, we will consolidate the VIE in our consolidated financial statements and reflect such assets and liabilities in our Consolidated Inventory not Owned in our Unaudited Condensed Consolidated Balance Sheets. At both June 30, 2015 and December 31, 2014, we have concluded that we were not the primary beneficiary of any VIEs from which we are purchasing under land option or purchase agreements.

NOTE 4. Fair Value Measurements

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

Assets Measured on a Recurring Basis

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

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

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

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

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

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

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

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

The table below shows the notional amounts of our financial instruments at June 30, 2015 and December 31, 2014:

Description of Financial Instrument (in thousands)	June 30, 2015	December 31, 2014
Best efforts contracts and related committed IRLCs	$4,126	$3,072
Uncommitted IRLCs	75,317	28,028
FMBSs related to uncommitted IRLCs	75,000	41,000
Best efforts contracts and related mortgage loans held for sale	8,159	61,233
FMBSs related to mortgage loans held for sale	63,000	27,000
Mortgage loans held for sale covered by FMBSs	63,528	26,825

The table below shows the level and measurement of assets and liabilities measured on a recurring basis at June 30, 2015 and December 31, 2014:

Description of Financial Instrument (in thousands)	Fair Value Measurements June 30, 2015	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	$75,063	$—	$75,063	$—
Forward sales of mortgage-backed securities	1,250	—	1,250	—
Interest rate lock commitments	61	—	61	—
Best-efforts contracts	(76)	—	(76)	—
Total	$76,298	$—	$76,298	$—

Description of Financial Instrument (in thousands)	Fair Value Measurements December 31, 2014	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	$92,794	$—	$92,794	$—
Forward sales of mortgage-backed securities	(182)	—	(182)	—
Interest rate lock commitments	288	—	288	—
Best-efforts contracts	53	—	53	—
Total	$92,953	$—	$92,953	$—

The following table sets forth the amount of (loss) gain recognized, within our revenue in the Unaudited Condensed Consolidated Statements of Income, on assets and liabilities measured on a recurring basis for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
Description (in thousands)	2015	2014	2015	2014
Mortgage loans held for sale	$(1,182)	$727	$(824)	$3,515
Forward sales of mortgage-backed securities	1,812	(619)	1,432	(1,184)
Interest rate lock commitments	(573)	176	(228)	897
Best-efforts contracts	31	(179)	(128)	(592)
Total gain recognized	$88	$105	$252	$2,636

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

	Asset Derivatives June 30, 2015		Liability Derivatives June 30, 2015	
Description of Derivatives	Balance Sheet Location	Fair Value (in thousands)	Balance Sheet Location	Fair Value (in thousands)
Forward sales of mortgage-backed securities	Other assets	$1,250	Other liabilities	$—
Interest rate lock commitments	Other assets	61	Other liabilities	—
Best-efforts contracts	Other assets	—	Other liabilities	76
Total fair value measurements		$1,311		$76

	Asset Derivatives December 31, 2014		Liability Derivatives December 31, 2014	
Description of Derivatives	Balance Sheet Location	Fair Value (in thousands)	Balance Sheet Location	Fair Value (in thousands)
Forward sales of mortgage-backed securities	Other assets	$—	Other liabilities	$182
Interest rate lock commitments	Other assets	288	Other liabilities	—
Best-efforts contracts	Other assets	58	Other liabilities	5
Total fair value measurements		$346		$187

Assets Measured on a Non-Recurring Basis

Inventory. The Company assesses inventory for recoverability on a quarterly basis based on the difference in the carrying value of the inventory and its fair value at the time of the evaluation. Determining the fair value of a community's inventory involves a number of variables, estimates and projections, which are Level 3 measurement inputs. See Note 1, "Summary of Significant Accounting Policies - Inventory" in the Company's 2014 Form 10-K for additional information regarding the Company's methodology for determining fair value.

The Company uses significant assumptions to evaluate the recoverability of its inventory, such as estimated average selling price, construction and development costs, absorption pace (reflecting any product mix change strategies implemented or to be implemented), selling strategies, alternative land uses (including disposition of all or a portion of the land owned), or discount rates. Changes in these assumptions could materially impact future cash flow and fair value estimates and may lead the Company to incur additional impairment charges in the future. Our analysis is conducted only if indicators of a decline in value of our inventory exist, which include, among other things, declines in gross margin on sales contracts in backlog or homes that have been delivered, slower than anticipated absorption pace, declines in average sales price or high incentive offers by management to improve absorptions, declines in margins regarding future land sales, or declines in the value of the land itself as a result of third party appraisals. If communities are not recoverable based on the estimated future undiscounted cash flows, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

The table below shows the level and measurement of the Company's assets measured on a non-recurring basis as of and for the three and six months ended June 30, 2015 and 2014:

		Three Months Ended June 30,		Six Months Ended June 30,	
Description (in thousands)	Hierarchy	2015	2014 (2)	2015	2014 (2)
Adjusted basis of inventory (1)	Level 3	$—	$1,529	$—	$1,529
Total losses		—	804	—	804
Initial basis of inventory		$—	$2,333	$—	$2,333

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

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

Investment In Unconsolidated Joint Ventures. We evaluate our investments in unconsolidated joint ventures for impairment on a quarterly basis based on the difference in the investment's carrying value and its fair value at the time of the evaluation. If the Company has determined that the decline in value is other than temporary, the Company would write down the value of the investment to its estimated fair value. Determining the fair value of investments in unconsolidated joint ventures involves a number of variables, estimates and assumptions, which are Level 3 measurement inputs. See Note 1, "Summary of Significant Accounting Policies - Investment in Unconsolidated Joint Ventures" in the Company's 2014 Form 10-K for additional information regarding the Company's methodology for determining fair value. Because of the high degree of judgment involved in developing these assumptions, it is possible that changes in these assumptions could materially impact future cash flow and fair value estimates of the investments which may lead the Company to incur additional impairment charges in the future. During the three and six months ended June 30, 2015 and 2014, the Company did not record any impairment charges on its investments in unconsolidated joint ventures.

Financial Instruments

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

The following table presents the carrying amounts and fair values of the Company's financial instruments at June 30, 2015 and December 31, 2014. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price).

	June 30, 2015		December 31, 2014	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash, cash equivalents and restricted cash	$26,947	$26,947	$22,486	$22,486
Mortgage loans held for sale	75,063	75,063	92,794	92,794
Split dollar life insurance policies	202	202	187	187
Notes receivable	3,731	3,527	4,288	3,793
Commitments to extend real estate loans	61	61	289	289
Best-efforts contracts for committed IRLCs and mortgage loans held for sale	—	—	58	58
Forward sales of mortgage-backed securities	1,250	1,250	—	—
Liabilities:				
Notes payable - homebuilding operations	105,600	105,600	30,000	30,000
Notes payable - financial services operations	69,681	69,681	85,379	85,379
Notes payable - other	8,230	7,842	9,518	9,089
Convertible senior subordinated notes due 2017	57,500	67,850	57,500	67,634
Convertible senior subordinated notes due 2018	86,250	86,250	86,250	87,544
Senior notes due 2018	228,669	238,050	228,469	239,488
Best-efforts contracts for committed IRLCs and mortgage loans held for sale	76	76	—	—
Forward sales of mortgage-backed securities	—	—	182	182
Off-Balance Sheet Financial Instruments:				
Letters of credit	—	536	—	881

The following methods and assumptions were used by the Company in estimating its fair value disclosures of financial instruments at June 30, 2015 and December 31, 2014:

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

Mortgage Loans Held for Sale, Forward Sales of Mortgage-Backed Securities, Commitments to Extend Real Estate Loans, Best-Efforts Contracts for Committed IRLCs and Mortgage Loans Held for Sale, 2017 Convertible Senior Subordinated Notes, 2018 Convertible Senior Subordinated Notes and 2018 Senior Notes. The fair value of these financial instruments was determined based upon market quotes at June 30, 2015 and December 31, 2014. The market quotes used were quoted prices for similar assets or liabilities along with inputs taken from observable market data by correlation. The inputs were adjusted to account for the condition of the asset or liability.

Split Dollar Life Insurance Policies and Notes Receivable. The estimated fair value was determined by calculating the present value of the amounts based on the estimated timing of receipts using discount rates that incorporate

management's estimate of risk associated with the corresponding note receivable.
Notes Payable - Homebuilding Operations. The interest rate available to the Company during the quarter ended June 30, 2015 fluctuated with the Alternate Base Rate or the Eurodollar Rate for the Company's $300 million unsecured revolving credit facility

dated July 18, 2013, as amended on October 20, 2014 (the "Credit Facility"), and thus the carrying value is a reasonable estimate of fair value. Refer to Note 7 for additional information regarding the Credit Facility.

Notes Payable - Financial Services Operations. M/I Financial, LLC ("M/I Financial") is a party to two credit agreements: (1) a $110 million secured mortgage warehousing agreement, dated March 29, 2013, as most recently amended on June 26, 2015 (the "MIF Mortgage Warehousing Agreement"); and (2) a $15 million mortgage repurchase agreement dated November 13, 2012, as most recently amended on November 4, 2014 (the "MIF Mortgage Repurchase Facility"). For each of these credit facilities, the interest rate is based on a variable rate index, and thus their carrying value is a reasonable estimate of fair value. The interest rate available to M/I Financial during the second quarter of 2015 fluctuated with LIBOR. Refer to Note 7 for additional information regarding the MIF Mortgage Warehousing Agreement and the MIF Mortgage Repurchase Facility.

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

Letters of Credit. Letters of credit of $32.2 million and $33.6 million represent potential commitments at June 30, 2015 and December 31, 2014, 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 5. Guarantees and Indemnifications

Warranty

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

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

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

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

A summary of warranty activity for the three and six months ended June 30, 2015 and 2014 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2015	2014	2015	2014
Warranty reserves, beginning of period	$11,551	$11,769	$12,671	$12,291
Warranty expense on homes delivered during the period	2,044	1,680	3,583	3,039
Changes in estimates for pre-existing warranties	413	652	676	890
Settlements made during the period	(3,370)	(2,881)	(6,292)	(5,000)
Warranty reserves, end of period	$10,638	$11,220	$10,638	$11,220

Guarantees
In the ordinary course of business, M/I Financial, a 100%-owned subsidiary of M/I Homes, Inc., enters into agreements that guarantee certain purchasers of its mortgage loans that M/I Financial will repurchase a loan if certain conditions occur, primarily

if the mortgagor does not meet the terms of the loan within the first six months after the sale of the loan. Loans totaling approximately $21.1 million and $33.4 million were covered under these guarantees as of June 30, 2015 and December 31, 2014, respectively. The decrease in loans covered by these guarantees from December 31, 2014 is a result of a change in the mix of investors and their related purchase terms. A portion of the revenue paid to M/I Financial for providing the guarantees on these loans was deferred at June 30, 2015, and will be recognized in income as M/I Financial is released from its obligation under the guarantees. The risk associated with the guarantees above is offset by the value of the underlying assets.

M/I Financial has received inquiries concerning underwriting matters from purchasers of its loans regarding certain loans totaling approximately $6.9 million and $9.1 million at June 30, 2015 and December 31, 2014, respectively. The risk associated with the guarantees above is offset by the value of the underlying assets. The decrease from December 31, 2014 was due to M/I Financial reaching a settlement agreement with one of its investors during the first quarter of 2015 which substantially eliminated any liability to repurchase or indemnify loans associated with the loan purchase agreement.

M/I Financial has also guaranteed the collectability of certain loans to third party insurers (U.S. Department of Housing and Urban Development and U.S. Veterans Administration) of those loans for periods ranging from five to thirty years. As of both June 30, 2015 and December 31, 2014, the total of all loans indemnified to third party insurers relating to the above agreements was $2.0 million. The maximum potential amount of future payments is equal to the outstanding loan value less the value of the underlying asset plus administrative costs incurred related to foreclosure on the loans, should this event occur.

The Company has recorded a liability relating to the guarantees described above totaling $2.1 million and $2.9 million at June 30, 2015 and December 31, 2014, respectively, which is management's best estimate of the Company's liability.

At June 30, 2015, the Company had outstanding $230.0 million aggregate principal amount of 8.625% Senior Notes due 2018 (the "2018 Senior Notes"), $57.5 million aggregate principal amount of 3.25% Convertible Senior Subordinated Notes due 2017 (the "2017 Convertible Senior Subordinated Notes") and $86.3 million aggregate principal amount of 3.0% Convertible Senior Subordinated Notes due 2018 (the "2018 Convertible Senior Subordinated Notes").

The Company's obligations under the 2018 Senior Notes and the Credit Facility are fully and unconditionally guaranteed jointly and severally on a senior unsecured basis by all of the Company's subsidiaries, with the exception of subsidiaries that are primarily engaged in the business of mortgage financing, title insurance or similar financial businesses relating to the homebuilding and home sales business, certain subsidiaries that are not 100%-owned by the Company or another subsidiary, and other subsidiaries designated by the Company as Unrestricted Subsidiaries (as defined in Note 11), subject to limitations on the aggregate amount invested in such Unrestricted Subsidiaries in accordance with the terms of the Credit Facility and the indenture for the 2018 Senior Notes. The Company's obligations under the 2017 Convertible Senior Subordinated Notes and the 2018 Convertible Senior Subordinated Notes are guaranteed jointly and severally on a senior subordinated unsecured basis by the same subsidiaries of the Company that are guarantors of the 2018 Senior Notes and the Credit Facility (the "Guarantor Subsidiaries"). Refer to Note 7 for a description of the guarantees of the Credit Facility.

NOTE 6. Commitments and Contingencies

At June 30, 2015, the Company had outstanding approximately $131.9 million of completion bonds and standby letters of credit, some of which were issued to various local governmental entities that expire at various times through June 2020. Included in this total are: (1) $86.5 million of performance and maintenance bonds and $19.5 million of performance letters of credit that serve as completion bonds for land development work in progress; (2) $12.7 million of financial letters of credit, of which $6.7 million represent deposits on land and lot purchase agreements; and (3) $13.2 million of financial bonds.

At June 30, 2015, the Company also had options and contingent purchase agreements to acquire land and developed lots with an aggregate purchase price of approximately $495.6 million. Purchase of properties under these agreements is contingent upon satisfaction of certain requirements by the Company and the sellers.

The Company and certain of its subsidiaries have been named as defendants in certain claims, complaints and legal actions that are incidental to our business. Certain of the liabilities resulting from these matters are covered by insurance. While management currently believes that the ultimate resolution of these matters, individually and in the aggregate, will not have a material effect on the Company’s financial position, results of operations and cash flows, such matters are subject to inherent uncertainties. The Company has recorded a liability to provide for the anticipated costs, including legal defense costs, associated with the resolution of these matters. However, it is possible that the costs to resolve these matters could differ from the recorded estimates and, therefore, have a material effect on the Company’s net income for the periods in which the matters are resolved. At June 30, 2015 and December 31, 2014, we had $0.3 million and $0.2 million accrued for legal expenses, respectively.

NOTE 7. Debt
Notes Payable - Homebuilding
The Credit Facility provides for an aggregate commitment amount of $300 million, including a $125 million sub-facility for letters of credit. In addition, the Credit Facility has an accordion feature under which the Company may increase the aggregate commitment amount up to $400 million, subject to certain conditions, including obtaining additional commitments from existing or new lenders. The Credit Facility matures on October 20, 2018. Interest on amounts borrowed under the Credit Facility is payable at either the Alternate Base Rate plus an initial margin of 150 basis points, or at the Eurodollar Rate plus a margin of 250 basis points, in each case subject to adjustment based on the Company's leverage ratio. The Credit Facility also contains certain financial covenants. At June 30, 2015, the Company was in compliance with all financial covenants of the Credit Facility.
At June 30, 2015, borrowing availability under the Credit Facility in accordance with the borrowing base calculation was $462.4 million and, as a result, the full amount of the $300 million facility was available. At June 30, 2015, there were $105.6 million of borrowings outstanding and $27.3 million of letters of credit outstanding, leaving net remaining borrowing availability of $167.1 million.
The Company’s obligations under the Credit Facility are guaranteed by all of the Company’s subsidiaries, with the exception of subsidiaries that are primarily engaged in the business of mortgage financing, title insurance or similar financial businesses relating to the homebuilding and home sales business, certain subsidiaries that are not 100%-owned by the Company or another subsidiary, and other subsidiaries designated by the Company as Unrestricted Subsidiaries (as defined in Note 11), subject to limitations on the aggregate amount invested in such Unrestricted Subsidiaries in accordance with the terms of the Credit Facility and the indenture for the 2018 Senior Notes. The guarantors for the Credit Facility are the same subsidiaries that guarantee the 2018 Senior Notes, the 2017 Convertible Senior Subordinated Notes, and the 2018 Convertible Senior Subordinated Notes.
The Company’s obligations under the Credit Facility are general, unsecured senior obligations of the Company and the subsidiary guarantors and rank equally in right of payment with all our existing and future unsecured senior indebtedness. Our obligations under the Credit Facility are effectively subordinated to our existing and future secured indebtedness with respect to any assets comprising security or collateral for such indebtedness.
The Company is party to three secured credit agreements for the issuance of letters of credit outside of the Credit Facility (collectively, the “Letter of Credit Facilities”), with maturity dates ranging from August 31, 2014 to June 1, 2017. The agreements governing the Letter of Credit Facilities contain limits for the issuance of letters of credit ranging from $5.0 million to $10.0 million, for a combined letter of credit capacity of $20.0 million, of which $4.0 million was uncommitted at June 30, 2015 and could be withdrawn at any time. At June 30, 2015 and December 31, 2014, there was $4.9 million and $6.5 million of outstanding letters of credit in aggregate under the Company’s three Letter of Credit Facilities, respectively, which were collateralized with $5.0 million and $6.6 million of the Company’s cash, respectively.
Notes Payable — Financial Services
The MIF Mortgage Warehousing Agreement is used to finance eligible residential mortgage loans originated by M/I Financial and provides a maximum borrowing availability of $110 million and an accordion feature which allows for an increase of the maximum borrowing availability of up to an additional $20 million (subject to certain conditions, including obtaining additional commitments from existing or new lenders). The maximum principal amount permitted to be outstanding at any one time in aggregate under all warehouse credit lines is $150 million. The minimum required tangible net worth requirement applicable to M/I Financial is $11.0 million and the minimum required liquidity requirement is $5.5 million. On June 26, 2015, the Company entered into a third amendment of the MIF Mortgage Warehousing Agreement, which, among other things, extended the expiration date to June 24, 2016 and adjusted the interest rate to a per annum rate equal to the greater of (1) the floating LIBOR rate plus 250 basis points and (2) 3.0%. The rate had previously been a per annum rate equal to the greater of (1) the floating LIBOR rate plus 275 basis points and (2) 3.0%.
The MIF Mortgage Repurchase Facility is used to finance eligible residential mortgage loans originated by M/I Financial and is structured as a mortgage repurchase facility with a maximum borrowing availability of $15 million and an expiration date of November 3, 2015. M/I Financial pays interest on each advance under the MIF Mortgage

Repurchase Facility at a per annum rate equal to the floating LIBOR rate plus 275 or 300 basis points depending on the loan type.

At June 30, 2015 and December 31, 2014, M/I Financial's total combined maximum borrowing availability under the two credit facilities was $125.0 million. At June 30, 2015 and December 31, 2014, M/I Financial had $69.7 million and $85.4 million outstanding on a combined basis under its credit facilities, respectively, and was in compliance with all financial covenants of those agreements for both periods.

Senior Notes

As of both June 30, 2015 and December 31, 2014, we had $230.0 million of our 2018 Senior Notes outstanding. The 2018 Senior Notes bear interest at a rate of 8.625% per year, payable semiannually in arrears on May 15 and November 15 of each year, and mature on November 15, 2018. The 2018 Senior Notes are general, unsecured senior obligations of the Company and the subsidiary guarantors and rank equally in right of payment with all our existing and future unsecured senior indebtedness. The 2018 Senior Notes are effectively subordinated to our existing and future secured indebtedness with respect to any assets comprising security or collateral for such indebtedness. The 2018 Senior Notes contain certain covenants, as more fully described and defined in the indenture, which limit the ability of the Company and the restricted subsidiaries to, among other things: incur additional indebtedness; make certain payments, including dividends, or repurchase any shares, in an aggregate amount exceeding our "restricted payments basket"; make certain investments; and create or incur certain liens, consolidate or merge with or into other companies, or liquidate or sell or transfer all or substantially all of our assets. These covenants are subject to a number of exceptions and qualifications as described in the indenture governing the 2018 Senior Notes. As of June 30, 2015, the Company was in compliance with all terms, conditions, and covenants under the indenture.

The 2018 Senior Notes are fully and unconditionally guaranteed jointly and severally on a senior unsecured basis by all of our subsidiaries, with the exception of subsidiaries that are primarily engaged in the business of mortgage financing, title insurance or similar financial businesses relating to the homebuilding and home sales business, certain subsidiaries that are not 100%-owned by the Company or another subsidiary, and other subsidiaries designated by the Company as Unrestricted Subsidiaries, subject to limitations on the aggregate amount invested in such Unrestricted Subsidiaries in accordance with the terms of the Credit Facility and the indenture for the 2018 Senior Notes. As of June 30, 2015, the guarantors for the 2018 Senior Notes are the same subsidiaries that guarantee the Credit Facility, the 2017 Convertible Senior Subordinated Notes, and the 2018 Convertible Senior Subordinated Notes.

The Company may redeem all or any portion of the 2018 Senior Notes at a stated redemption price, together with accrued and unpaid interest thereon. The redemption price is currently 104.313% of the principal amount outstanding, but will decline to 102.156% of the principal amount outstanding if redeemed during the 12-month period beginning on November 15, 2015, and will further decline to 100.000% of the principal amount outstanding if redeemed on or after November 15, 2016, but prior to maturity.

The indenture governing our 2018 Senior Notes limits our ability to pay dividends on, and repurchase, our common shares and our 9.75% Series A Preferred Shares (the "Series A Preferred Shares") to the amount of the positive balance in our "restricted payments basket," as defined in the indenture. The "restricted payments basket" is equal to $40.0 million (1) plus 50% of our aggregate consolidated net income (or minus 100% of our aggregate consolidated net loss) since October 1, 2010, excluding the income or loss from Unrestricted Subsidiaries, plus (2) 100% of the net cash proceeds from the sale of qualified equity interests, plus other items and subject to other exceptions. The restricted payments basket was $154.5 million and $148.6 million at June 30, 2015 and December 31, 2014, respectively. The determination to pay future dividends on, or make future repurchases of, our common shares or Series A Preferred Shares will be at the discretion of our board of directors and will depend upon our results of operations, financial condition, capital requirements and compliance with debt covenants and the terms of our Series A Preferred Shares, and other factors deemed relevant by our board of directors.

Convertible Senior Subordinated Notes

In March 2013, the Company issued $86.3 million aggregate principal amount of 2018 Convertible Senior Subordinated Notes. The 2018 Convertible Senior Subordinated Notes bear interest at a rate of 3.0% per year, payable semiannually in arrears on March 1 and September 1 of each year. The 2018 Convertible Senior Subordinated Notes mature on March 1, 2018. At any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2018 Convertible Senior Subordinated Notes into the Company's common shares. The conversion rate initially equals 30.9478 shares per $1,000 of principal amount. This corresponds to an initial conversion price of approximately $32.31 per common share, which equates to approximately 2.7 million common shares. The conversion rate is subject to adjustment upon the occurrence of certain events. The 2018 Convertible Senior Subordinated Notes are fully and unconditionally guaranteed on a senior subordinated unsecured basis by those subsidiaries of the Company that are guarantors under the Company's 2018 Senior Notes and

2017 Convertible Senior Subordinated Notes. The 2018 Convertible Senior Subordinated Notes are senior subordinated unsecured obligations of the Company and the subsidiary guarantors, are subordinated in right of payment to our existing and future senior indebtedness and are also effectively subordinated to our existing and future secured indebtedness with respect to any assets comprising security or collateral for such indebtedness. The indenture governing the 2018 Convertible Senior Subordinated Notes provides that the Company may not redeem the 2018 Convertible Senior Subordinated Notes prior to March 6, 2016, but also contains provisions requiring the Company to repurchase the notes (subject to certain exceptions), at a holder's option, upon the occurrence of a fundamental change (as defined in the indenture).

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

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

Notes Payable - Other

The Company had other borrowings, which are reported in Notes Payable - Other in our Unaudited Condensed Consolidated Balance Sheets, totaling $8.2 million and $9.5 million as of June 30, 2015 and December 31, 2014, respectively. The balance consists primarily of a mortgage note payable with a $4.1 million principal balance outstanding at June 30, 2015 (and $4.3 million principal balance outstanding at December 31, 2014), which is secured by an office building, matures in 2017 and carries an interest rate of 8.1%. The remaining balance is made up of other notes payable incurred through the normal course of business.

NOTE 8. Earnings Per Share

The table below presents a reconciliation between basic and diluted weighted average shares outstanding, net income available to common shareholders and basic and diluted income per share for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share amounts)	2015	2014	2015	2014
NUMERATOR				
Net income	$13,350	$13,554	$22,918	$26,186
Preferred stock dividends	(1,219)	(1,219)	(2,438)	(2,438)
Net income to common shareholders	12,131	12,335	20,480	23,748
Interest on 3.25% convertible senior subordinated notes due 2017	373	383	745	744
Interest on 3.00% convertible senior subordinated notes due 2018	502	517	1,005	1,002
Diluted income available to common shareholders	$13,006	$13,235	$22,230	$25,494
DENOMINATOR				
Basic weighted average shares outstanding	24,531	24,470	24,523	24,444
Effect of dilutive securities:				
Stock option awards	243	218	233	228
Deferred compensation awards	164	140	161	134
3.25% convertible senior subordinated notes due 2017	2,416	2,416	2,416	2,416
3.00% convertible senior subordinated notes due 2018	2,669	2,669	2,669	2,669
Diluted weighted average shares outstanding - adjusted for assumed conversions	30,023	29,913	30,002	29,891
Earnings per common share:				
Basic	$0.49	$0.50	$0.84	$0.97
Diluted	$0.43	$0.44	$0.74	$0.85
Anti-dilutive equity awards not included in the calculation of diluted earnings per common share	1,486	1,287	1,428	1,221

For the three and six months ended June 30, 2015 and 2014, the effect of convertible debt was included in the diluted earnings per share calculations.

NOTE 9. Income Taxes

During the three and six months ended June 30, 2015, the Company recorded a tax provision of $8.5 million and $14.7 million, respectively, which reflects income tax expense related to the period’s pre-tax earnings. The effective tax rate for both the three and six months ended June 30, 2015 was 39.0%. During the three and six months ended June 30, 2014, the Company recorded a tax provision of $1.7 million and $1.6 million, respectively, which reflects income tax expense related to the period’s pre-tax earnings, as well as a benefit of $4.0 million and $9.3 million, respectively, from the reversal of our state deferred tax asset valuation allowance. The effective tax rate for the three and six months ended June 30, 2014 was 11.4% and 5.8%, respectively, which was not meaningful due to the effects of the deferred tax asset valuation allowance and federal and state tax net operating losses (“NOLs”), and there was no correlation between the effective tax rate and the amount of pre-tax income for the period.

At June 30, 2015, the Company had federal NOL carryforwards of approximately $37.9 million and federal credit carryforwards of $7.9 million. Our federal NOL carryforwards may be carried forward from one to 17 years to offset future taxable income with the federal carryforward benefits beginning to expire in 2028. The Company had $10.8 million of state NOL carryforwards at June 30, 2015. Our state NOLs may be carried forward from one to 17 years, depending on the tax jurisdiction, with $4.5 million expiring between 2022 and 2027 and $6.3 million expiring between 2028 and 2032, absent sufficient state taxable income.

NOTE 10. Business Segments

The Company’s chief operating decision makers evaluate the Company’s performance in various ways, including: (1) the results of our 13 individual homebuilding operating segments and the results of our financial services operations; (2) the results of our three homebuilding reportable segments; and (3) our consolidated financial results.

In accordance with ASC 280, Segment Reporting (“ASC 280”), we have identified each homebuilding division as an operating segment as each homebuilding division engages in business activities from which it earns revenue, primarily from the sale and construction of single-family attached and detached homes, acquisition and development of land, and the occasional sale of lots to third parties. Our financial services operations generate revenue primarily from the origination, sale and servicing of mortgage loans and title services primarily for purchasers of the Company's homes and are included in our financial services reportable segment. In accordance with the aggregation criteria defined in ASC 280, we have determined our reportable segments as follows: Midwest homebuilding, Southern homebuilding, Mid-Atlantic homebuilding and financial services operations. The homebuilding operating segments that are included within each reportable segment have been aggregated because they share similar aggregation characteristics as prescribed in ASC 280 in the following regards: (1) long-term economic characteristics; (2) historical and expected future long-term gross margin percentages; (3) housing products, production processes and methods of distribution; and (4) geographical proximity. The homebuilding operating segments that comprise each of our reportable segments are as follows:

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

The following table shows, by segment: revenue, operating income and interest expense for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2015	2014	2015	2014
Revenue:				
Midwest homebuilding	$118,141	$85,549	$203,358	$165,153
Southern homebuilding	105,399	101,122	203,954	181,322
Mid-Atlantic homebuilding	90,382	88,467	161,671	155,639
Financial services (a)	8,934	6,470	17,032	14,335
Total revenue	$322,856	$281,608	$586,015	$516,449
Operating income:				
Midwest homebuilding (b)	$12,219	$6,726	$20,015	$13,969
Southern homebuilding	7,970	8,649	16,561	14,526
Mid-Atlantic homebuilding	8,266	7,584	13,026	12,377
Financial services (a)	5,245	3,374	10,569	8,400
Less: Corporate selling, general and administrative expense	(8,079)	(8,278)	(14,594)	(14,624)
Total operating income	$25,621	$18,055	$45,577	$34,648
Interest expense:				
Midwest homebuilding	$563	$492	$1,887	$1,761
Southern homebuilding	1,762	1,368	3,536	2,959
Mid-Atlantic homebuilding	1,030	568	2,063	1,563
Financial services (a)	395	302	726	617
Total interest expense	$3,750	$2,730	$8,212	$6,900
Equity in (income) loss of unconsolidated joint ventures	(14)	22	(212)	(40)
Income before income taxes	$21,885	$15,303	$37,577	$27,788

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

(b) For the three and six months ended June 30, 2014, the impact of charges relating to the impairment of operating communities in the Midwest region reduced operating income by $0.8 million.

The following tables show total assets by segment at June 30, 2015 and December 31, 2014:

	June 30, 2015				
(In thousands)	Midwest	Southern	Mid-Atlantic	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	$4,995	$14,768	$3,510	$—	$23,273
Inventory (a)	326,306	400,139	291,226	—	1,017,671
Investments in unconsolidated joint ventures	1,893	26,464	—	—	28,357
Other assets	9,374	24,175	14,469	197,670	245,688
Total assets	$342,568	$465,546	$309,205	$197,670	$1,314,989

	December 31, 2014				
(In thousands)	Midwest	Southern	Mid-Atlantic	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	$4,573	$14,752	$4,170	$—	$23,495
Inventory (a)	303,037	331,938	260,119	—	895,094
Investments in unconsolidated joint ventures	1,764	26,005	—	—	27,769
Other assets	7,933	16,829	7,536	232,754	265,052
Total assets	$317,307	$389,524	$271,825	$232,754	$1,211,410

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

NOTE 11. Supplemental Guarantor Information

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

The following condensed consolidating financial information includes balance sheets, statements of income and cash flow information for M/I Homes, Inc. (the parent company and the issuer of the aforementioned guaranteed notes), the Guarantor Subsidiaries, collectively, and for all other subsidiaries and joint ventures of the Company (the "Unrestricted Subsidiaries"), collectively. Each Guarantor Subsidiary is a direct or indirect 100%-owned subsidiary of M/I Homes, Inc. and has fully and unconditionally guaranteed the (a) 2018 Senior Notes, on a joint and several senior unsecured basis, (b) the 2017 Convertible Senior Subordinated Notes on a joint and several senior subordinated unsecured basis and (c) the 2018 Convertible Senior Subordinated Notes on a joint and several senior subordinated unsecured basis. There are no significant restrictions on the parent company's ability to obtain funds from its Guarantor Subsidiaries in the form of a dividend, loan, or other means.

As of June 30, 2015, each of the Company's subsidiaries is a Guarantor Subsidiary, with the exception of subsidiaries that are primarily engaged in the business of mortgage financing, title insurance or similar financial businesses relating to the homebuilding and home sales business, certain subsidiaries that are not 100%-owned by the Company or another subsidiary, and other subsidiaries designated by the Company as Unrestricted Subsidiaries, subject to limitations on the aggregate amount invested in such Unrestricted Subsidiaries in accordance with the terms of the

Credit Facility and the indenture for the 2018 Senior Notes.

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

CONDENSED CONSOLIDATING STATEMENTS OF INCOME

	Three Months Ended June 30, 2015				
(In thousands)	M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated
Revenue	$—	$313,921	$8,935	$—	$322,856
Costs and expenses:					
Land and housing	—	252,595	—	—	252,595
General and administrative	—	17,868	3,837	—	21,705
Selling	—	22,935	—	—	22,935
Equity in income of unconsolidated joint ventures	—	—	(14)	—	(14)
Interest	—	3,355	395	—	3,750
Total costs and expenses	—	296,753	4,218	—	300,971
Income before income taxes	—	17,168	4,717	—	21,885
Provision for income taxes	—	6,767	1,768	—	8,535
Equity in subsidiaries	13,350	—	—	(13,350)	—
Net income	13,350	10,401	2,949	(13,350)	13,350
Preferred dividends	1,219	—	—	—	1,219
Net income to common shareholders	$12,131	$10,401	$2,949	$(13,350)	$12,131

	Three Months Ended June 30, 2014				
(In thousands)	M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated
Revenue	$—	$275,138	$6,470	$—	$281,608
Costs and expenses:					
Land and housing	—	221,217	—	—	221,217
Impairment of inventory and investment in unconsolidated joint ventures	—	804		—	804
General and administrative	—	18,057	3,224	—	21,281
Selling	—	20,251	—	—	20,251
Equity in loss of unconsolidated joint ventures	—	—	22	—	22
Interest	—	2,428	302	—	2,730
Total costs and expenses	—	262,757	3,548	—	266,305
Income before income taxes	—	12,381	2,922	—	15,303
Provision for income taxes	—	344	1,405	—	1,749
Equity in subsidiaries	13,554	—	—	(13,554)	—

Net income	13,554	12,037	1,517	(13,554	) 13,554
Preferred dividends	1,219	—	—	—	1,219
Net income to common shareholders	$12,335	$12,037	$1,517	$(13,554	) $12,335

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CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

(In thousands)	Six Months Ended June 30, 2015 M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated
Revenue	$—	$568,983	$17,032	$—	$586,015
Costs and expenses:					
Land and housing	—	458,778	—	—	458,778
General and administrative	—	34,254	6,785	—	41,039
Selling	—	40,621	—	—	40,621
Equity in income of unconsolidated joint ventures	—	—	(212)	—	(212)
Interest	—	7,486	726	—	8,212
Total costs and expenses	—	541,139	7,299	—	548,438
Income before income taxes	—	27,844	9,733	—	37,577
Provision for income taxes	—	11,159	3,500	—	14,659
Equity in subsidiaries	22,918	—	—	(22,918)	—
Net income	22,918	16,685	6,233	(22,918)	22,918
Preferred dividends	2,438	—	—	—	2,438
Net income to common shareholders	$20,480	$16,685	$6,233	$(22,918)	$20,480

(In thousands)	Six Months Ended June 30, 2014 M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated
Revenue	$—	$502,114	$14,335	$—	$516,449
Costs and expenses:					
Land and housing	—	405,181	—	—	405,181
Impairment of inventory and investment in unconsolidated joint ventures	—	804		—	804
General and administrative	—	33,348	6,248	—	39,596
Selling	—	36,220	—	—	36,220
Equity in income of unconsolidated joint ventures	—	—	(40)	—	(40)
Interest	—	6,282	618	—	6,900
Total costs and expenses	—	481,835	6,826	—	488,661
Income before income taxes	—	20,279	7,509	—	27,788
(Benefit) provision for income taxes	—	(1,437)	3,039	—	1,602
Equity in subsidiaries	26,186	—	—	(26,186)	—

Net income	26,186	21,716	4,470	(26,186)	26,186
Preferred dividends	2,438	—	—	—	2,438
Net income to common shareholders	$23,748	$21,716	$4,470	$(26,186)	$23,748

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CONDENSED CONSOLIDATING BALANCE SHEET

(In thousands)	June 30, 2015 M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated
ASSETS:					
Cash and cash equivalents	$—	$9,210	$12,563	$—	$21,773
Restricted cash	—	5,174	—	—	5,174
Mortgage loans held for sale	—		75,063	—	75,063
Inventory	—	1,040,944	—	—	1,040,944
Property and equipment - net	—	11,514	305	—	11,819
Investment in unconsolidated joint ventures	—	13,594	14,763	—	28,357
Deferred income taxes, net of valuation allowances	—	80,962	92	—	81,054
Investment in subsidiaries	597,385	—	—	(597,385)	—
Intercompany assets	334,304	—	—	(334,304)	—
Other assets	7,903	29,249	13,653	—	50,805
TOTAL ASSETS	$939,592	$1,190,647	$116,439	$ (931,689)	$1,314,989
LIABILITIES AND SHAREHOLDERS' EQUITY					
LIABILITIES:					
Accounts payable	$—	$90,379	$264	$—	$90,643
Customer deposits	—	18,438	—	—	18,438
Intercompany liabilities	—	317,567	16,737	(334,304)	—
Other liabilities	—	62,196	4,998	—	67,194
Community development district obligations	—	1,496	—	—	1,496
Obligation for consolidated inventory not owned	—	14,115	—	—	14,115
Notes payable bank - homebuilding operations	—	105,600	—	—	105,600
Notes payable bank - financial services operations	—	—	69,681	—	69,681
Notes payable - other	—	8,230	—	—	8,230
Convertible senior subordinated notes due 2017	57,500	—	—	—	57,500
Convertible senior subordinated notes due 2018	86,250	—	—	—	86,250
Senior notes	228,669	—	—	—	228,669
TOTAL LIABILITIES	372,419	618,021	91,680	(334,304)	747,816
SHAREHOLDERS' EQUITY	567,173	572,626	24,759	(597,385)	567,173
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$939,592	$1,190,647	$116,439	$ (931,689)	$1,314,989

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CONDENSED CONSOLIDATING BALANCE SHEET

(In thousands)	December 31, 2014 M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated
ASSETS:					
Cash and cash equivalents	$—	$3,872	$11,663	$—	$15,535
Restricted cash	—	6,951	—	—	6,951
Mortgage loans held for sale	—	—	92,794	—	92,794
Inventory	—	918,589	—	—	918,589
Property and equipment - net	—	11,189	301	—	11,490
Investment in unconsolidated joint ventures	—	15,033	12,736	—	27,769
Deferred income taxes, net of valuation allowances	—	94,088	324	—	94,412
Investment in subsidiaries	576,468	—	—	(576,468)	—
Intercompany assets	330,786	—	—	(330,786)	—
Other assets	9,260	24,378	10,232	—	43,870
TOTAL ASSETS	$916,514	$1,074,100	$128,050	$ (907,254)	$1,211,410
LIABILITIES AND SHAREHOLDERS' EQUITY					
LIABILITIES:					
Accounts payable	$—	$74,344	$994	$—	$75,338
Customer deposits	—	11,759	—	—	11,759
Intercompany liabilities	—	314,946	15,840	(330,786)	—
Other liabilities	—	74,413	5,310	—	79,723
Community development district obligations	—	2,571	—	—	2,571
Obligation for consolidated inventory not owned	—	608	—	—	608
Notes payable bank - homebuilding operations	—	30,000	—	—	30,000
Notes payable bank - financial services operations	—	—	85,379	—	85,379
Notes payable - other	—	9,518	—	—	9,518
Convertible senior subordinated notes due 2017	57,500	—	—	—	57,500
Convertible senior subordinated notes due 2018	86,250	—	—	—	86,250
Senior notes	228,469	—	—	—	228,469
TOTAL LIABILITIES	372,219	518,159	107,523	(330,786)	667,115
SHAREHOLDERS' EQUITY	544,295	555,941	20,527	(576,468)	544,295
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$916,514	$1,074,100	$128,050	$ (907,254)	$1,211,410

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2015				
(In thousands)	M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated
OPERATING ACTIVITIES:					
Net cash provided by (used in) operating activities	$2,000	$ (65,777)	$ 19,567	$ (2,000)	$ (46,210)
INVESTING ACTIVITIES:					
Restricted cash	—	1,583	—	—	1,583
Purchase of property and equipment	—	(1,337)	(64)	—	(1,401)
Intercompany investing	98	—	—	(98)	—
Investments in and advances to unconsolidated joint ventures	—	(2,555)	(1,655)	—	(4,210)
Net cash provided by (used in) investing activities	98	(2,309)	(1,719)	(98)	(4,028)
FINANCING ACTIVITIES:					
Proceeds from bank borrowings - homebuilding operations	—	220,700	—	—	220,700
Principal repayments of bank borrowings - homebuilding operations	—	(145,100)	—	—	(145,100)
Net proceeds from bank borrowings - financial services operations	—	—	(15,698)	—	(15,698)
Principal proceeds from notes payable - other and CDD bond obligations	—	(1,288)	—	—	(1,288)
Proceeds from exercise of stock options	340	—	—	—	340
Intercompany financing	—	(888)	790	98	—
Dividends paid	(2,438)	—	(2,000)	2,000	(2,438)
Debt issue costs	—	—	(40)	—	(40)
Net cash (used in) provided by financing activities	(2,098)	73,424	(16,948)	2,098	56,476
Net increase in cash and cash equivalents	—	5,338	900	—	6,238
Cash and cash equivalents balance at beginning of period	—	3,872	11,663	—	15,535
Cash and cash equivalents balance at end of period	$—	$ 9,210	$ 12,563	$ —	$ 21,773

	Six Months Ended June 30, 2014				
(In thousands)	M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated
OPERATING ACTIVITIES:					
Net cash provided by (used in) operating activities	$6,400	$ (93,426)	$ 26,757	$ (6,400)	$ (66,669)
INVESTING ACTIVITIES:					
Restricted cash	—	3,819	—	—	3,819
Purchase of property and equipment	—	(1,578)	(99)	—	(1,677)

Investments in and advances to unconsolidated joint ventures	—	(10,318)	(3,166)	—	(13,484)
Net proceeds from the sale of mortgage servicing rights	—	—	2,135	—	2,135
Net cash used in investing activities	—	(8,077)	(1,130)	—	(9,207)
FINANCING ACTIVITIES:					
Net repayments from bank borrowings - financial services operations	—	—	(18,115)	—	(18,115)
Principal repayments from notes payable - other and CDD bond obligations	—	(73)	—	—	(73)
Proceeds from exercise of stock options	1,460	—	—	—	1,460
Intercompany financing	(5,422)	7,876	(2,454)	—	—
Dividends paid	(2,438)	—	(6,400)	6,400	(2,438)
Debt issue costs	—	—	(40)	—	(40)
Net cash (used in) provided by financing activities	(6,400)	7,803	(27,009)	6,400	(19,206)
Net decrease in cash and cash equivalents	—	(93,700)	(1,382)	—	(95,082)
Cash and cash equivalents balance at beginning of period	—	113,407	15,318	—	128,725
Cash and cash equivalents balance at end of period	$—	$ 19,707	$ 13,936	$ —	$ 33,643

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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 92,000 homes since we commenced homebuilding activities in 1976. The Company's homes are marketed and sold under the M/I Homes and Showcase Collection (exclusively by M/I Homes) brands. The Company has homebuilding operations in Columbus and Cincinnati, Ohio; Indianapolis, Indiana; Chicago, Illinois; Tampa and Orlando, Florida; Austin, Dallas/Fort Worth, Houston and San Antonio, Texas; Charlotte and Raleigh, North Carolina; and the Virginia and Maryland suburbs of Washington, D.C.

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

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

FORWARD-LOOKING STATEMENTS

Certain information included in this report or in other materials we have filed or will file with the Securities and Exchange Commission (the "SEC") (as well as information included in oral statements or other written statements made or to be made by us) contains or may contain forward-looking statements, including, but not limited to, statements regarding our future financial performance and financial condition. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," and "estimates," variations of such words and similar expressions are intend 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, 2014 (the "2014 Form 10-K") for more information regarding those risk factors.

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

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on various other factors that it believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. On an ongoing basis, management evaluates such estimates and judgments and makes adjustments as deemed necessary. Actual results could differ from these estimates using different estimates and assumptions, or if conditions are significantly different in the future. See Note 1 (Summary of Significant Accounting Policies) to our consolidated financial statements included in our 2014 Form 10-K for additional information about our accounting policies.

We believe that there have been no significant changes to our critical accounting policies during the quarter ended June 30, 2015 as compared to those disclosed in Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our 2014 Form 10-K.

RESULTS OF OPERATIONS

The Company's chief operating decision makers evaluate the Company's performance in various ways, including: (1) the results of our 13 individual homebuilding operating segments and the results of our financial services operations; (2) the results of our three homebuilding reportable segments; and (3) our consolidated financial results.

In accordance with ASC 280, Segment Reporting ("ASC 280"), we have identified each homebuilding division as an operating segment as each homebuilding division engages in business activities from which it earns revenue, primarily from the sale and construction of single-family attached and detached homes, acquisition and development of land, and the occasional sale of lots to third parties. Our financial services operations generate revenue primarily from the origination, sale and servicing of mortgage loans and title services primarily for purchasers of the Company's homes and are included in our financial services reportable segment. In accordance with the aggregation criteria defined in ASC 280, we have determined our reportable segments as follows: Midwest homebuilding, Southern homebuilding, Mid-Atlantic homebuilding and financial services operations. The homebuilding operating segments included in each reportable segment have been aggregated because they share similar aggregation characteristics as prescribed in ASC 280 in the following regards: (1) long-term economic characteristics; (2) historical and expected future long-term gross margin percentages; (3) housing products, production processes and methods of distribution; and (4) geographical proximity.

The homebuilding operating segments that comprise each of our reportable segments are as follows:

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

Overview

In the first half of 2015, we experienced generally favorable demand for new homes in most of our markets, reflecting positive underlying demographic and economic trends, including low interest rates and improved consumer confidence, employment levels and mortgage availability. These favorable conditions and the continued execution of our strategic business initiatives enabled us to achieve improvements in the quarter and first half ended June 30, 2015 compared to the same periods in 2014 for many of our financial and operating metrics, including total revenue, gross margin, pre-tax income, new contracts, average sales price of homes delivered, sales value in backlog, and the number of active communities.

For the quarter ended June 30, 2015, we recorded net income to common shareholders of $12.1 million ($0.43 per diluted share) compared to net income to common shareholders of $12.3 million ($0.44 per diluted share) for the three months ended June 30, 2014. Excluding a $4.0 million, or $0.13 per diluted share, benefit in 2014's second quarter from the reversal of our remaining state deferred tax valuation allowance, our net income to common shareholders and diluted earnings per share improved 45% and 39%, respectively, in the second quarter of 2015 compared to the second quarter of 2014. For the six months ended June 30, 2015, we recorded net income to common shareholders of $20.5 million ($0.74 per diluted share) compared to net income to common shareholders of $23.7 million ($0.85 per diluted share) for the six months ended June 30, 2014. Excluding a $9.3 million, or $0.31 per diluted share, benefit in 2014's first half from the reversal of our remaining state deferred tax valuation allowance, our net income to common shareholders and diluted earnings per share improved 41.7% and 37.0%, respectively, in the first half of 2015 compared to the same period in 2014.

Summary of Company Financial Results

During the quarter ended June 30, 2015, we recorded total revenue of $322.9 million, of which $312.1 million was from homes delivered, $1.8 million was from land sales and $9.0 million was from our financial services operations. Revenue from homes delivered increased 14% driven primarily by a 11% increase in the average sales price of homes delivered ($34,000 per home delivered) and the 25 unit increase in homes delivered in 2015's second quarter compared to the same period in 2014. During the first half of 2015, we recorded total revenue of $586.0 million, of which $545.1 million was from homes delivered, $23.9 million was from land sales and $17.0 million was from our financial services operations. Revenue from homes delivered increased 10% driven primarily by a 10% increase in the average sales price of homes delivered ($30,000 per home delivered) and the five unit increase in homes delivered in the first half of 2015 compared to the same period in 2014. Revenue from land sales increased $15.8 million during 2015's first half primarily due to land sales in both our Southern and Mid-Atlantic regions compared to 2014 (as our homebuilding operations generate revenue from the sale of land in the normal course of operations). Revenue in our financial services segment increased 38% to $9.0 million and 19% to $17.0 million in the three and six months ended June 30, 2015, respectively, compared to the same periods in 2014 due to the factors discussed below in our "Year Over Year Comparison" section.

Total gross margin increased $10.7 million in the second quarter of 2015 compared to the second quarter of 2014 as a result of an $8.2 million improvement in the gross margin of our homebuilding operations and a $2.5 million improvement in the gross margin of our financial services operations. The improvement in the gross margin of our homebuilding operations was primarily due to a $7.6 million improvement in housing gross margin compared to 2014's second quarter. The increase in housing gross margin resulted primarily from the 11% increase in the average sales price of homes delivered ($34,000 per home delivered) and the 25 unit increase in homes delivered in the second quarter of 2015. For the six months ended June 30, 2015, total gross margin increased $16.8 million compared to the first half of 2014 as a result of a $14.1 million improvement in the gross margin of our homebuilding operations and a $2.7 million improvement in the gross margin of our financial services operations. The improvement in the gross margin of our homebuilding operations during the first half of 2015 was primarily due to a $9.6 million improvement in housing gross margin compared to 2014's first half and a $3.7 million improvement in gross margin from strategic land sales made during the first quarter of 2015. The increase in housing gross margin resulted primarily from the 10% increase in the average sales price of homes delivered ($30,000 per home delivered). We believe the increased sales prices during the three and six months ended June 30, 2015 were driven primarily by better pricing leverage in select locations and submarkets and shifts in both product and community mix. We sell a variety of home types in various communities and markets, each of which yields a different gross margin. As a result, housing gross margin may fluctuate up or down depending on the mix of communities delivering homes. The pricing improvements were partially offset by higher average lot and construction costs related to cost increases associated with homebuilding industry conditions and normal supply and demand dynamics. During the three and six months ended June 30, 2015 and 2014, we were able to pass a majority of the higher construction costs to our homebuyers in the form of higher sales prices. However, we cannot provide any assurance that our ability to pass such cost increases to our homebuyers through higher sales prices will continue.

Selling, general and administrative expense increased $3.1 million for the three months ended June 30, 2015, which partially offset the increase in our gross margin discussed above, but improved as a percentage of revenue to 13.8% in the second quarter of 2015 compared to 14.7% in the second quarter of 2014. Selling expense increased $2.7 million from 2014's second quarter but improved slightly as a percentage of revenue to 7.1% in 2015's second quarter compared to 7.2% for the same period in 2014. Variable selling expense for sales commissions contributed $1.6 million to the increase due to the higher average sales price. The increase in selling expense was also attributable to a $1.1 million increase in non-variable selling expense primarily related to start-up costs associated with our sales offices and models in our Austin and Dallas/Fort Worth markets as a result of our increased community count. General and administrative expense increased $0.4 million, from $21.3 million in the second quarter of 2014 to $21.7 million in the second quarter of 2015 but improved as a percentage of revenue from 7.6% in the second quarter of 2014 to 6.7% in the same period in 2015. This dollar increase was primarily due to a $0.3 million increase in variable incentive compensation expense. Selling, general and administrative expense increased $5.8 million for the six months ended June 30, 2015, but improved as a percentage of revenue to 13.9% in the first half of 2015 compared to 14.7% in the 2014's first half. Selling expense increased $4.4 million to $40.6 million from $36.2 million in 2014's first six months but improved slightly as a percentage of revenue to 6.9% in 2015's first half compared to 7.0% for the same period in 2014. Variable selling expense for sales commissions contributed $2.4 million to the increase due to the higher average sales price. The increase in selling expense was also attributable to a $2.0 million increase in non-variable selling expense related to expenses associated with our sales offices and models. General and administrative expense increased $1.4 million, from $39.6 million in the first half of 2014 to $41.0 million in 2015's first half but improved as a percentage of revenue from 7.7% in the first six months of 2014 to 7.0% in 2015's first six months. This dollar increase was primarily due to a $0.7 million increase associated with our Austin and Dallas/Fort Worth markets, a $0.4 million increase in variable incentive compensation expense, and a $0.3 million increase in professional fees. We continue to focus on controlling our selling, general and administrative expense.

Outlook

We believe that low interest rates and improved consumer confidence, employment levels and mortgage availability will continue to support a modestly higher level of demand in the housing market through the remainder of 2015, when compared with 2014, and we expect total new home sales nationally in 2015 will exceed the total for 2014. We remain focused on increasing our profitability, continuing to grow our market share and investing in attractive land opportunities.

Given our expectations with respect to the housing market and homebuilding industry conditions, and our focus on improving long-term results, we will continue to emphasize the following strategic business objectives throughout the remainder of 2015:

- profitably growing our presence in our existing markets, including opening new communities;
- reviewing new markets for investment opportunities;
- maintaining a strong balance sheet; and
- emphasizing customer service, product quality and design, and premier locations.

Consistent with these objectives, we took a number of steps during the first six months of 2015 to position the Company for continued improvement through the remainder of 2015 and beyond, including investing $94.8 million in land acquisitions and $82.2 million in land development to help grow our presence in our existing markets. We currently estimate that we will spend approximately $400 million to $450 million on land purchases and land development in 2015. However, given varying results in each of our local markets, we will continue to adjust our strategies and investments based on housing demand and our performance in each of our markets. We opened 28 communities and closed 23 communities in the first half of 2015, ending 2015's first half with a total of 155 communities.

Going forward, we believe our abilities to leverage our fixed costs, obtain land at desired rates of return, and open and grow our active communities provide our best opportunities for continuing to improve our financial results. However, we can provide no assurance that the positive trends reflected in our financial and operating metrics in 2013 and 2014 will continue throughout the remainder of 2015.

The following table shows, by segment: revenue; gross margin; selling, general and administrative expense; operating income (loss); and interest expense for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2015	2014	2015	2014
Revenue:				
Midwest homebuilding	$118,141	$85,549	$203,358	$165,153
Southern homebuilding	105,399	101,122	203,954	181,322
Mid-Atlantic homebuilding	90,382	88,467	161,671	155,639
Financial services (a)	8,934	6,470	17,032	14,335
Total revenue	$322,856	$281,608	$586,015	$516,449
Gross margin:				
Midwest homebuilding	$22,975	$16,382	$39,558	$31,779
Southern homebuilding	21,104	20,180	40,691	35,396
Mid-Atlantic homebuilding	17,248	16,555	29,956	28,954
Financial services (a)	8,934	6,470	17,032	14,335
Total gross margin	$70,261	$59,587	$127,237	$110,464
Selling, general and administrative expense:				
Midwest homebuilding	$10,756	$9,656	$19,543	$17,810
Southern homebuilding	13,134	11,531	24,130	20,870
Mid-Atlantic homebuilding	8,982	8,971	16,930	16,577
Financial services (a)	3,689	3,096	6,463	5,935
Corporate	8,079	8,278	14,594	14,624
Total selling, general and administrative expense	$44,640	$41,532	$81,660	$75,816
Operating income (loss):				
Midwest homebuilding	$12,219	$6,726	$20,015	$13,969
Southern homebuilding	7,970	8,649	16,561	14,526
Mid-Atlantic homebuilding	8,266	7,584	13,026	12,377
Financial services (a)	5,245	3,374	10,569	8,400
Corporate	(8,079)	(8,278)	(14,594)	(14,624)
Total operating income	$25,621	$18,055	$45,577	$34,648
Interest expense:				
Midwest homebuilding	$563	$492	$1,887	$1,761
Southern homebuilding	1,762	1,368	3,536	2,959
Mid-Atlantic homebuilding	1,030	568	2,063	1,563
Financial services (a)	395	302	726	617
Total interest expense	$3,750	$2,730	$8,212	$6,900
Equity in income of unconsolidated joint ventures	(14)	22	(212)	(40)
Income before income taxes	$21,885	$15,303	$37,577	$27,788

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

The following tables show total assets by segment at June 30, 2015 and December 31, 2014:

	At June 30, 2015				
(In thousands)	Midwest	Southern	Mid-Atlantic	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	$4,995	$14,768	$ 3,510	$—	$23,273
Inventory (a)	326,306	400,139	291,226	—	1,017,671
Investments in unconsolidated joint ventures	1,893	26,464	—	—	28,357
Other assets	9,374	24,175	14,469	197,670	245,688
Total assets	$342,568	$465,546	$ 309,205	$197,670	$1,314,989

	At December 31, 2014	
(In thousands)	Midwest	Southern