M I HOMES INC
Form 10-K
March 04, 2008

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

FORM 10-K

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

For the fiscal year ended December 31, 2007

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

For the transition period from ______ to ______

Commission File No. 1-12434

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

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, par value $.01	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

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

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

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

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

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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 Act).
Yes No X

As of June 30, 2007, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of voting common shares held by non-affiliates of the registrant (13,279,627 shares) was approximately $353,238,000. The number of common shares of the registrant outstanding on February 22, 2008 was 14,004,890.

DOCUMENT INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for the 2008 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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ITEM 1. BUSINESS

Company

M/I Homes, Inc. and subsidiaries (the "Company" or "we") is one of the nation's leading builders of single-family homes. The Company was incorporated, through predecessor entities, in 1973 and commenced homebuilding activities in 1976. Since that time, the Company has sold and delivered over 71,000 homes. We sell and construct single-family homes, attached townhomes and condominiums to first-time, move-up, empty-nester and luxury buyers under the M/I Homes and Showcase Homes trade names. In 2007, our average sales price of homes delivered was $296,000 compared to $308,000 in 2006. During the year ended December 31, 2007, we delivered 3,173 homes with revenues from continuing operations of $1.0 billion and a net loss from continuing operations of $92.5 million. At December 31, 2007, we had 712 homes in backlog with a sales value of approximately $220 million compared to 1,433 homes with a sales value of $484 million at December 31, 2006.

Our homes are sold in the following geographic markets - Columbus and Cincinnati, Ohio; Tampa and Orlando, Florida; Charlotte and Raleigh, North Carolina; Indianapolis, Indiana; and the Virginia and Maryland suburbs of Washington, D.C. In late 2007, we announced our intention to exit our West Palm Beach, Florida market. Hence, the results of operation and financial position of this decision have been reported as discontinued operation. For additional information on this discontinued operation, please refer to Note 2, "Discontinued Operation" in our Notes to Consolidated Financial Statements. In 2007, we also announced our decision to enter the Chicago market and plan to commence active homebuilding operations there in 2008. We are the leading homebuilder in the Columbus, Ohio market, and have been the number one builder of single-family detached homes in this market for each of the last nineteen years. In addition, we are one of the top ten homebuilders in the Indianapolis, Cincinnati and Tampa markets, based on homes delivered. Our current operating strategy is focused on the following key initiatives:

- Emphasizing our product, customer service and premier locations;
- Improving affordability through design and other cost reduction efforts;
- Decreasing our expenses to reflect current business conditions; and
- Reducing our land and lot inventory by curtailing our land purchases, phasing and/or delaying land development, and selectively pursuing the sale of certain owned land.

We believe that we distinguish ourselves from competitors by offering homes in select areas with a high level of design and construction quality within a given price range, and by providing customers with the confidence they can only get from superior customer service. Offering homes at a variety of price points allows us to attract a wide range of buyers. We support our homebuilding operations by providing mortgage financing services through our wholly-owned subsidiary, M/I Financial Corp. ("M/I Financial"), and title and insurance brokerage services through subsidiaries that are either wholly- or majority-owned by the Company.

Our financial reporting segments consist of the following: Midwest homebuilding; Florida homebuilding; Mid-Atlantic homebuilding; and financial services. Our homebuilding operations comprise the most substantial part of our business, representing more than 98% of consolidated revenue during each of the past three years. Our homebuilding operations generate over 94% of their revenue from the sale of completed homes, with the remaining amount generated from the sale of land and lots. Our financial services operations generate revenue from originating and selling mortgages, collecting fees for title insurance and closing services, and collecting commissions as a broker of property and casualty insurance policies. Financial information, including revenue, operating income and identifiable assets for each of our reporting segments, is included in Note 21, "Business Segments" in our Notes to Consolidated Financial Statements.

Our business strategy emphasizes the following:

Superior homeowner service. Our core operating philosophy is to provide superior service to our homeowners. We attempt to involve the homeowner in many phases of the building process in order to enhance communication, knowledge and involvement of the homeowner. Our selling process focuses on the homes' features, benefits, quality and design, as opposed to merely price and square footage. In most of our markets, we utilize design centers to better promote the sale of options and enable buyers to make more informed choices. This enhances the selling process and increases the sale of optional features that typically carry higher margins. We believe all of this leads to a more satisfied homeowner.

Product diversity and innovative design. We devote significant resources to the research and design of our homes to meet the needs of our buyers. We offer a number of distinct product lines and approximately 600 different floor plans, with some of those floor plans being built in multiple elevations. We also offer a high level of design and construction quality within each of our price ranges.

Build confidence in all areas of our company. Our unique designs, superior quality and craftsmanship, premier customer service and customer-focused financing options are all designed to build superior customer confidence in both our product and our company.

Premier locations and highly desirable communities. As a key strategic element of our business, we focus on locating and controlling land in the most desirable areas of our markets. We also focus on the overall design and appearance of our communities. Through our community planning and design process, we create well-planned communities with careful attention to a wide variety of aesthetic elements. We focus on the location and design of our communities because we believe these are important factors our homebuyers consider when making a decision to purchase a new home.

Profitability. We focus on profitability while maintaining the high quality of our homes and customer service. We focus on margins by carefully managing the selling process in order to emphasize the features, benefits, quality and design of our homes. In addition, profitability is enhanced by managing expenses and minimizing speculative building. We are also focused on reducing our overhead costs by right-sizing our operations, along with continuing to reduce our construction costs by working with our vendors and subcontractors to continue to provide attractive features while minimizing raw material and construction costs. We also focus on profitability through our land strategies which presently call for reducing our investment in land and lot inventory to levels more closely matched with our projected future sales absorption levels.

Maintain market position in existing markets. Though most of our markets have experienced a slowdown in new homebuilding construction as a result of various economic factors, we believe in their long term prospects for growth and successful homebuilding operations. In late 2007, we announced our decision to exit the West Palm Beach, Florida market due to that market's challenges and unpredictable revenue production.

Sales and Marketing

Throughout our markets, we market and sell our homes exclusively under the M/I Homes trade name, except in Columbus, where a limited number of our homes are also marketed under the Showcase Homes trade name. Company-employed sales personnel conduct home sales from on-site offices within our furnished model homes. Each sales consultant is trained and prepared to meet the buyer's expectations and build their confidence by fully explaining the features and benefits of our homes, helping each buyer determine which home best suits their needs, explaining the construction process, and assisting the buyer in choosing the best financing. Significant attention is given to the ongoing training of all sales personnel to assure the highest level of professionalism and product knowledge. As of December 31, 2007, we employed 122 sales consultants and operated 171 model homes.

We advertise using newspapers, magazines, direct mail, billboards, radio and television. The particular marketing mediums used differ from market to market based on area demographics and other competitive factors. We have also significantly increased our advertising on the internet through expansion of our website at mihomes.com and through a third party's website. Our messaging across all of these mediums, promotional or otherwise, are unified, highly synergistic and designed to build strong equity in the M/I Homes brand. In addition, we encourage independent broker participation and, from time to time, utilize promotions and incentives to attract interest from these brokers. Our commitment to quality design and construction, along with our reputation for superior service, has resulted in a strong referral base and numerous repeat buyers.

To further enhance the selling process, we operate design centers in most of our Midwest and Florida markets, and recently opened design centers in our Charlotte and Raleigh markets. These design centers are staffed with interior design specialists who assist buyers in selecting interior and exterior colors, standard options and upgrades. In our Washington, D.C. market, this selection process is handled directly by our sales consultants. From time to time, we also add to the selling process by offering unique, below-market fixed rate financing options to our customers through M/I Financial, which has branches in all of our markets except for Chicago. M/I Financial originates loans for purchasers of our homes. The loans are then sold, along with the servicing rights, to outside mortgage lenders. Title-related services are provided to purchasers of our homes in the majority of our markets through affiliated entities. In addition, in 2007, the financial services segment began collecting commissions as a broker of property and casualty insurance policies through a majority-owned subsidiary, M/I Insurance Agency, LLC.

We generally do not commence construction of a home until we obtain a sales contract and preliminary oral advice from the buyer's lender that financing should be approved. However, in certain markets, contracts may be accepted contingent upon the sale of an existing home, and construction may be authorized through a certain phase prior to satisfaction of that contingency. In addition, speculative, or "spec," homes (i.e., homes started in the absence of an executed contract) may be built to facilitate delivery of homes on an immediate-need basis and to provide presentation of new products.

We have participated in charitable down-payment assistance programs for a small percentage of our homebuyers. Through these programs, we make a donation to a non-profit organization that provides financial assistance to a homebuyer who would not otherwise have sufficient funds for a down payment.

Design and Construction

We devote significant resources to the research, design and development of our homes in order to distinguish ourselves from other homebuilders and fulfill the needs of homebuyers in all of our markets. We offer approximately 600 different floor plans that are tailored to meet the requirements of buyers within each of our markets. We spent $2.5 million, $4.7 million and $4.4 million in the years ended December 31, 2007, 2006 and 2005, respectively, for research and development of our homes.

The construction of each home is supervised by a Personal Construction Supervisor who reports to a Production Manager, both of whom are employees of the Company. Buyers are introduced to their Personal Construction Supervisor prior to commencement of home construction at a pre-construction "buyer/builder conference." The purpose of this conference is to review the home plans and all relevant construction details and to explain the construction process and schedule. We encourage our buyers to actively monitor and observe the construction of their home and see the quality being built into their home. All of this is part of our exclusive "Confidence Builder Program" which, consistent with our business philosophy, is designed to "put the buyer first" and enhance the total home-buying experience.

Homes generally are constructed according to standardized designs and meet applicable Federal Housing Authority ("FHA") and Veterans Administration ("VA") requirements. To allow maximum design flexibility, we limit the use of pre-assembled building components. The efficiency of the building process is enhanced through the use of standardized materials available from a variety of sources. We utilize independent subcontractors for the installation of site improvements and the construction of our homes. Our on-site construction supervisors manage the development and construction process. Subcontractor work is performed pursuant to written agreements. The agreements are generally short-term, with terms from six to twelve months, and specify a fixed price for labor and materials. The agreements are structured to provide price protection for a majority of the higher-cost phases of construction for homes in our backlog. The construction of our homes typically takes approximately four to six months from the start of construction to completion of the home, depending on the size and complexity of the particular home being built. We did not experience any significant issues with availability of building materials or skilled labor during 2007. As of December 31, 2007, we had a total of 712 homes with $219.5 million aggregate sales value in backlog in various stages of completion, including homes that are under contract but for which construction has not yet begun. As of December 31, 2006, we had a total of 1,433 homes with $483.6 million aggregate sales value in backlog. Homes included in year-end backlog are typically included in homes delivered in the subsequent year.

Warranty

We provide a variety of warranties in connection with our homes and have a program to perform several inspections on each home that we sell. Immediately prior to closing and again approximately three months after a home is delivered, we inspect each home with the buyer. At the homeowner's request, we will also provide a one-year drywall inspection. During the third quarter of 2007, the Company implemented a new limited warranty program ("Home

Builder's Limited Warranty") in conjunction with its thirty-year transferable structural limited warranty, on homes closed after the implementation date. The Home Builder's Limited Warranty covers construction defects for a statutory period based on geographic market and state law (currently ranging from five to ten years for the states in which the Company operates) and includes a mandatory arbitration clause. Prior to this new warranty program, the Company provided up to a two-year limited warranty on materials and workmanship and a twenty-year (for homes closed between 1989 and 1998) and a thirty-year (for homes closed during or after 1998) limited warranty against major structural defects. To increase the value of the thirty-year warranty, the warranty is transferable in the event of the sale of the home. The Home Builder's Limited Warranty provides coverage for construction defects and certain resultant damage caused by any construction defects. The warranty period varies by state in accordance with the statute of limitations for construction defects for each state. We also pass along to our homebuyers all warranties provided by the manufacturers or suppliers of components installed in each home. Our warranty expense was approximately 0.8%, 0.7% and 0.9% of total housing revenue for the years ended December 2007, 2006 and 2005, respectively.

Markets

Our operations are organized into ten homebuilding divisions within three regions to maximize operating efficiencies and use of local management. Each of our divisions is managed by an area president with each region being managed by a region president. Our current homebuilding operating structure is as follows:

Region	Division	Year Operations Commenced
Midwest	Columbus, Ohio	1976
Midwest	Cincinnati, Ohio	1988
Midwest	Indianapolis, Indiana	1988
Midwest	Chicago, Illinois	2007
Florida	Tampa, Florida	1981
Florida	Orlando, Florida	1984
Mid-Atlantic	Charlotte, North Carolina	1985
Mid-Atlantic	Raleigh, North Carolina	1986
Mid-Atlantic	Maryland and Virginia suburbs of Washington D.C.	1991

Columbus is the capital of Ohio, with federal, state and local governments providing significant employment. Private industries including education, healthcare, and professional services have notably contributed to this market as well. Single-family permits were approximately 4,400 in 2007, a decline of 23% from 2006's permits of approximately 5,700. Columbus is our home market, where we have had operations since 1976.

Cincinnati is characterized by an employment base highly concentrated in the service-producing industry; however, the area has experienced a decline in the manufacturing, construction, and retail sectors. Although Cincinnati leads the state in economic growth, presently it is slow and remains below the national average. Single-family permits were approximately 5,300 in 2007, a decline of 29% from 2006's permits of nearly 7,500.

Indianapolis is a market noted for its diverse industry. Significant industries include construction, leisure/hospitality, transportation/utilities and retail services. Single-family permits were approximately 7,100 in 2007, a decline of 24% from 2006's permits of nearly 9,300.

Chicago is the business center of the Midwest. Growth in the Chicago area has been dependent on business, financial and transportation industries, along with tourism. The area has recently experienced a decline in existing and new home sales. Single-family permits were approximately 18,200 in 2007, a decline of 36% from 2006's permits of approximately 28,600.

Tampa's labor demand softened in 2007 resulting in an increase in unemployment. The construction and financial industries, which had previously anchored the metro area, have experienced a decline in growth as the housing market weakens; however, commercial real estate markets have maintained a strong presence. Single-family housing permits were approximately 8,100 in 2007 compared to approximately 18,300 in 2006, a decline of 56%.

Orlando's housing market experienced a significant decline in 2007. Commercial real estate remains strong in the metro area. Predominant industries include tourism, high-tech and manufacturing. The rise in unemployment, along with an imbalance in the housing market, has contributed to the decline of permits. In 2007, single-family permits were approximately 11,800, a decline of 50% from 2006's permits of approximately 23,500.

Charlotte is home to numerous firms in the banking industry, as well as a growing presence of corporate headquarters. The demographics continue to support long-term growth, with strong in-migration and an educated workforce. In 2007, housing activity decreased 25% with nearly 15,200 single-family permits compared to approximately 20,300 in 2006.

Raleigh is the capital of North Carolina, with state government, three major universities within the greater metro area, and pharmaceutical and biotech industries contributing to its employment base. Single-family housing permits declined almost 10% in 2007 with nearly 16,600 single-family permits compared to approximately 18,300 in 2006.

Washington, D.C.'s major contributors to employment come from the construction, technology and government sectors. Single-family housing permits were approximately 21,300 in 2007 compared to approximately 26,700 in 2006, a decline of 20%. Our operations are located throughout the Maryland and Virginia suburbs of Washington, D.C.

Product Lines

On a regional basis, we offer homes ranging in base sales price from approximately $115,000 to $875,000, and ranging in square footage from approximately 1,100 to 5,700 square feet. In addition to single-family detached homes, we also offer attached townhomes in most of our markets as well as condominiums in our Columbus, Orlando, and Washington, D.C. markets. By offering a wide range of homes, we are able to attract first-time, move-up, empty-nester and luxury homebuyers. It is our goal to sell more than one home to our buyers, and we have been successful in this pursuit.

In each of our home lines, upgrades and options are available to the homebuyer for an additional charge. Major options include fireplaces, additional bathrooms and higher-quality flooring, cabinets and appliances. The options are typically more numerous and significant on our more expensive homes, and typically options carry a higher margin than our standard selections.

Land Acquisition and Development

In 2007, our percent of land internally developed reduced to 85% compared to 90% in previous years. This was, in part, due to the sale of our West Palm Beach assets as well as the Company's focus to reduce our internally developed land position. In the future, we plan to source the majority of our land through developed lot option contracts. We continue to constantly evaluate our alternatives to satisfy the need for lots in the most cost effective manner. We seek to limit our investment in undeveloped land and lots to the amount reasonably expected to be sold in the next three to six years. Although we purchase land and engage in land development activities primarily for the purpose of furthering our homebuilding activities, we have, on a very select and limited basis, developed land with the intention of selling a portion of the lots to outside homebuilders in certain markets.

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

We periodically enter into limited liability company ("LLC") arrangements with other entities to develop land. At December 31, 2007, we had interests varying from 33% to 50% in each of nineteen LLCs. Four of the LLCs are located in Tampa, Florida, one of the LLCs is located in Orlando, Florida and the remaining LLCs are located in Columbus, Ohio. Three of the LLCs have obtained financing from a third party lender, and all of the remaining LLCs are equity financed by the Company and our partners in the LLCs.

During the development of lots, we are required by some municipalities and other governmental authorities to provide completion bonds or letters of credit for sewer, streets and other improvements. At December 31, 2007, $81.1 million of completion bonds and $27 million of letters of credit were outstanding for these purposes.

We seek to balance the economic risk of owning lots and land with the necessity of having lots available for our homes. At December 31, 2007, we had 4,781 developed lots and 614 lots under development in inventory. We also owned raw land expected to be developed into approximately 5,614 lots. In addition, at December 31, 2007, our interest in lots held by unconsolidated LLCs consisted of no unsold lots, 423 lots under development and raw land expected to be developed into 2,318 lots.

At December 31, 2007, we had purchase agreements to acquire 1,969 developed lots and raw land to be developed into approximately 454 lots for a total of 2,423 lots, with an aggregate current purchase price of approximately $133.9 million. Purchase of these properties is generally contingent upon satisfaction of certain requirements by us and the sellers, such as zoning approval and availability of building permits. We currently believe that our maximum exposure as of December 31, 2007 related to these agreements is equal to the amount of our outstanding deposits, which totaled $9.1 million, including cash deposits of $4.4 million, prepaid acquisition costs of $1.3 million, letters of credit of $1.9 million and corporate promissory notes of $1.5 million. Further details relating to our land option agreements are included in Note 13 to our Consolidated Financial Statements.

The following table sets forth our land position in lots (including lots held in unconsolidated LLCs) at December 31, 2007:

	Lots Owned					
Region	Finished Lots	Lots Under Development	Undeveloped Lots	Total Lots Owned	Lots Under Contract	Total
Midwest	2,028	192	4,182	6,402	565	6,967
Florida	1,660	633	3,011	5,304	540	5,844
Mid-Atlantic	1,093	212	739	2,044	1,318	3,362
Total	4,781	1,037	7,932	13,750	2,423	16,173

Financial Services

We provide mortgage financing services to purchasers of our homes through M/I Financial. M/I Financial provides financing services in all of our housing markets except for Chicago. During the year ended December 31, 2007, we captured 79% of the available business from purchasers of our homes, originating approximately $586.5 million of mortgage loans. The mortgage loans originated by M/I Financial are generally sold to a third party within two weeks of originating the loan.

M/I Financial has been approved by the Department of Housing and Urban Development and the Veterans Administration to originate mortgages that are insured and/or guaranteed by these entities. In addition, M/I Financial has been approved by the Federal Home Loan Mortgage Corporation and by the Federal National Mortgage Association as a seller and servicer of mortgages.

We also provide title services to purchasers of our homes through our wholly-owned subsidiaries, TransOhio Residential Title Agency, Ltd. and M/I Title Agency, Ltd, and our majority-owned subsidiary, Washington/Metro Residential Title Agency, LLC. Through these entities, we serve as a title insurance agent by providing title insurance policies, examination and closing services to purchasers of our homes in all of our housing markets except Raleigh, Charlotte and Chicago. We assume no underwriting risk associated with the title policies. In addition, we collect commissions as a broker of property and casualty insurance policies through M/I Insurance Agency, LLC, a majority-owned subsidiary. As a broker, the Company does not retain any risk associated with these insurance policies.

Corporate Operations

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

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

Competition

In each of our markets, we compete with numerous national, regional and local homebuilders, some of which have greater financial, marketing, land acquisition and sales resources. Builders of new homes compete not only for homebuyers, but also for desirable properties, financing, raw materials and skilled subcontractors. In addition, we also face competition with the existing home resale market. We believe that we have a very strong competitive position in the markets in which we operate because of our commitment to quality and customer service and our dedication to building confidence in our product and our company. However, due to the current over-supply of housing inventory in many of the markets in which we operate, combined with significant discounting by certain homebuilding competitors, the housing markets in which we operate have become more competitive than in the past.

Regulation and Environmental Matters

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

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

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

Additional requirements may be imposed on homebuilders and developers in the future, which could have a significant impact on us and the industry. Although we cannot predict the effect of any such additional requirements, such requirements could result in time-consuming and expensive compliance programs. In addition, the continued effectiveness of current licenses, permits or development approvals is dependent upon many factors, some of which may be beyond our control.

Seasonality

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

Employees

At February 29, 2008, we employed 690 people (including part-time employees), of which 538 were employed in homebuilding operations, 62 in financial services and 90 in management and administrative services. No employees are represented by a collective bargaining agreement.

NYSE Certification

We submitted our 2006 Annual CEO Certification with the New York Stock Exchange on May 15, 2007. The certification was not qualified in any respect.

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These filings are available to the public over the internet on the SEC's website at www.sec.gov. Our periodic reports and other information filed with the SEC may be inspected without charge and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room.

Our principal internet address is mihomes.com. We make available, free of charge, on or through our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K that are furnished or filed, and amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our website also includes printable versions of our Corporate Governance guidelines, our Code of Business Conduct and Ethics, and Charters for each of our Audit, Compensation and

Nominating and Corporate Governance Committees. The contents of our website are not part of this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

Factors That May Affect Our Future Results (Cautionary Statements Under the Private Securities Litigation Reform Act of 1995):

Certain information included in this report or in other materials we have filed or will file with 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,” “believe “estimates,” variations of such words and similar expressions are intended to identify such forward-looking statements. These statements involve a number of risks and uncertainties. Any forward-looking statements that we make herein and in future reports and statements are not guarantees of future performance, and actual results may differ materially from those in such forward-looking statements as a result of various factors relating to the economic environment, interest rates, availability of resources, competition, market concentration, land development activities and various governmental rules and regulations, as more fully discussed in this Risk Factors section. Any forward-looking statement speaks only as of the date made. We undertake no obligation to publicly update any forward-looking statements or risk factors, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in our subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995, and all of our forward-looking statements are expressly qualified in their entirety by the cautionary statements contained or referenced in this section.

Discussions of our business and operations included in this Annual Report on Form 10-K should be read in conjunction with the risk factors set forth below. The following cautionary discussion of risks, uncertainties and assumptions relevant to our business includes factors we believe could cause our actual results to differ materially from expected and historical results. Other factors beyond those listed below, including factors unknown to us and factors known to us which we have not currently determined to be material, could also adversely affect us.

Homebuilding Market and Economic Risks

The homebuilding industry is in the midst of a significant downturn. A continuing decline in demand for new homes coupled with an increase in the inventory of available new homes and alternatives to new homes could adversely affect our sales volume and pricing even more than has occurred to date.

The homebuilding industry is in the midst of a significant downturn. As a result, we have experienced a significant decline in demand for newly built homes in almost all of our markets. Homebuilders’ inventories of unsold new homes have increased as a result of increased cancellation rates on pending contracts as new homebuyers sometimes find it more advantageous to forfeit a deposit than to complete the purchase of the home. In addition, an oversupply of alternatives to new homes, such as rental properties and existing homes, has depressed prices and reduced margins. This combination of lower demand and higher inventories affects both the number of homes we can sell and the prices at which we can sell them. For example, in 2007 we experienced a significant decline in our sales results, significant reductions in our margins as a result of higher levels of sales incentives and price concessions, and a higher than normal cancellation rate. We do not know how long demand and supply will remain out of balance in markets where we operate or whether, even if demand and supply come back in balance, sales volumes or pricing will return to prior levels.

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

Demand for homes is sensitive to changes in economic conditions such as the level of employment, consumer confidence, consumer income, the availability of financing, and interest rate levels. During 2007, the mortgage lending industry experienced significant challenges. As a result of increased default rates, particularly (but not entirely) with regard to sub-prime and other non-conforming loans, many lenders have reduced their willingness to make, and tightened their credit requirements with regard to, residential mortgage loans. Fewer loan products and stricter loan qualification standards have made it more difficult for some borrowers to finance the purchase of our homes. Although our finance company subsidiary offers mortgage loans to potential buyers of most of the homes we build, we may no longer be able to offer financing terms that are attractive to our potential buyers.

Unavailability of mortgage financing at acceptable rates reduces demand for the homes we build, including, in some instances, causing potential buyers to cancel contracts they have signed.

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

During the period of high demand in the homebuilding industry prior to 2006, many homebuyers financed their purchases using non-traditional adjustable rate or interest only mortgages or other mortgages, including sub-prime mortgages, that involved, at least during initial years, monthly payments that were significantly lower than those required by conventional fixed rate mortgages. As a result, new homes became more affordable. However, as monthly payments for these homes increase either as a result of increasing adjustable interest rates or as a result of principal payments coming due, some of these homebuyers could default on their payments and have their homes foreclosed, which would increase the inventory of homes available for resale. Foreclosure sales and other distress sales may result in further declines in market prices for homes. In an environment of declining prices, many homebuyers may delay purchases of homes in anticipation of lower prices in the future. In addition, as lenders perceive deterioration in credit quality among homebuyers, lenders have been eliminating some of the available non-traditional and sub-prime financing products and increasing the qualifications needed for mortgages or adjusting their terms to address increased credit risk. In addition, tighter lending standards for mortgage products and volatility in the sub-prime and alternative mortgage markets may have a negative impact on our business by making it more difficult for certain of our homebuyers to obtain financing or resell their existing homes. During 2007, approximately 6% of our closings were in the sub-prime category and approximately 10% were in the alternative category, with the majority of these sub-prime and alternative loans being brokered to third party mortgage companies. We define sub-prime mortgages as conventional loans with a credit score below 620 or government loans with a credit score below 575, and we define alternative loans as loans that do not fit in the conforming categories due to a variety of reasons such as documentation, residency or occupancy. In general, to the extent mortgage rates increase or lenders make it more difficult for prospective buyers to finance home purchases, it becomes more difficult or costly for customers to purchase our homes, which has an adverse affect on our sales volume.

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

We must anticipate demand for new homes several years prior to those homes being sold to homeowners. There are significant risks inherent in controlling or purchasing land, especially as the demand for new homes decreases. There is often a significant lag time between when we acquire land for development and when we sell homes in neighborhoods we have planned, developed and constructed. The value of undeveloped land, building lots and housing inventories can fluctuate significantly as a result of changing market conditions. In addition, inventory carrying costs can be significant and fluctuations in value can result in reduced profits. Economic conditions could result in the necessity to sell homes or land at a loss, or hold land in inventory longer than planned, which could significantly impact our financial condition, results of operations, cash flows and stock performance. As a result of softened market conditions in most of our markets, since 2006, we recorded a loss of $215.6 million for impairment of inventory and investments in unconsolidated LLCs and wrote-off $10.6 million relating to abandoned land transactions. It is possible that the estimated cash flows from these inventory positions may change and could result in a future need to record additional valuation adjustments. Additionally, if conditions in the homebuilding industry worsen in the future, we may be required to evaluate additional inventory for potential impairment, which may result in additional valuation adjustments which could be significant and could negatively impact our financial results and condition. We cannot make any assurances that the measures we employ to manage inventory risks and costs will be successful.

Operational Risks

If we are not able to obtain suitable financing, our business may be negatively impacted.

The homebuilding industry is capital intensive because of the length of time from when land or lots are acquired to when the related homes are constructed on those lots and delivered to homebuyers. Our business and earnings depend on our ability to obtain financing to support our homebuilding operations and to provide the resources to carry inventory. We may be required to seek additional capital, whether from sales of equity or debt or additional bank borrowings, to support our business. Our ability to secure the needed capital at terms that are acceptable to us may be impacted by factors beyond our control.

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

We incur many costs even before we begin to build homes in a community. These include costs of preparing land and installing roads, sewage and other utilities, as well as taxes and other costs related to ownership of the land on which we plan to build homes. Reducing the rate at which we build homes extends the length of time it takes us to recover these additional costs. Also, we frequently acquire options to purchase land and make deposits that will be forfeited if we do not exercise the options within specified periods. Because of current market conditions, we have terminated a number of these options, resulting in significant forfeitures of deposits we made with regard to the options.

The terms of our indebtedness may restrict our ability to operate.

The Second Amended and Restated Credit Agreement dated October 6, 2006 (the "Credit Facility") and the indenture governing our senior notes impose restrictions on our operations and activities. The most significant restrictions under the indenture governing our senior notes relate to debt incurrence, sales of assets, cash distributions and investments by us and certain of our subsidiaries. In addition, our Credit Facility requires compliance with certain financial covenants, including a minimum adjusted consolidated tangible net worth requirement and a maximum permitted leverage ratio.

Under the interest coverage covenant contained in our Credit Facility, we are required to maintain a minimum ratio of earnings before interest, taxes, depreciation, amortization and non-cash charges ("EBITDA") to interest incurred (as defined in the Credit Facility). The minimum ratio of EBITDA to interest incurred on a rolling four quarter basis is as follows, subject to certain exceptions discussed below: (1) for the quarter ending March 31, 2008, a ratio of 1.25 to 1.0; (2) for the quarters ending June 30, 2008 through March 31, 2009, a ratio of 1.0 to 1.0; (3) for the quarters ending June 30, 2009 and September 30, 2009, a ratio of 1.25 to 1.0; and (4) for each of the quarters including and after December 31, 2009, a ratio of 1.5 to 1.0. The Credit Facility permits this interest coverage ratio to be less than 1.0 to 1.0 for up to three quarters at any time during the term of the Credit Facility, provided that our leverage ratio is less than 1.0 to 1.0 at the end of such quarter. In addition to the rolling four quarter interest coverage ratio, we are also required to maintain a minimum quarter interest coverage ratio of 1.0 to 1.0. The Credit Facility permits this quarter interest coverage ratio to be less than 1.0 to 1.0 for a maximum of four consecutive quarters during the term of the Credit Facility. In addition, under the Credit Facility, we are required to maintain a minimum tangible net worth. At December, 31, 2007 our tangible net worth exceeded the minimum tangible net worth required by this covenant by approximately $40 million. Should economic conditions deteriorate further and significant impairments occur as a result, we may be unable to meet this covenant.

Based on our current estimates, we believe we will meet the interest coverage covenant and minimum net worth covenant through 2008 unless we are required to take significant additional impairment charges. If recording significant impairment charges and/or deferred tax valuation allowances in the future causes us not to comply with the minimum net worth covenant under the Credit Facility, the lender would have the right to terminate the Credit Facility and cause any amounts we owe under the Credit Facility to become due immediately. We monitor these and other covenant requirements closely. We can provide no assurance that we will be successful in complying with all restrictions of our indebtedness or in obtaining waivers in the event of a covenant violation.

The indenture covering our senior notes contains various covenants, including limitations on additional indebtedness, affiliate transactions, sale of assets and a restriction on certain payments. Payments for dividends and share repurchases are subject to a limitation, with increases in the limitation resulting from issuances of equity interests and quarterly net earnings, and decreases in the limitation resulting from quarterly net losses, with such increases and decreases being cumulative since the March 2005 issuance of the notes. As of December 31, 2007, there was $98.5 million available for the payment of dividends or share repurchases under this covenant.

One unconsolidated entity in which we have investments may not be able to modify the terms of its loan agreement

In one of our joint ventures with financing we have not met certain obligations under the loan agreement which has resulted in the joint venture being in default. The joint venture is redefining the business plan and continues to proceed in discussions with the lender. Although we continue to have discussions with both our builder partner and lender, there can be no assurance that we will be able to successfully re-negotiate or extend, on terms we deem acceptable, the joint venture loan. The loan is non-recourse to the Company. If we are unsuccessful in these efforts, it may result in the write-off of our investment of $3.3 million.

We may be unable to obtain suitable financing and bonding for the development of our communities.

Our business depends upon our ability to obtain financing for the development of our residential communities and to provide bonds to ensure the completion of our projects. We currently use our credit facility to provide some of the financing we need. The willingness of lenders to make funds available to us has been affected both by factors relating to us as a borrower, and by a decrease in the willingness of banks and other lenders to lend to homebuilders generally. If we were unable to finance the development of our communities through our credit facility or other debt, or if we were unable to provide required surety bonds for our projects, our business operations and revenues could suffer a material adverse effect.

The credit facilities of our Financial Services segment will expire in 2008.

Our Financial Services segment has the M/I Financial First Amended and Restated Revolving Credit Agreement (the “MIF Credit Facility”) totaling $40.0 million, with an increase to $65.0 million during the period from December 15, 2007 to January 15, 2008. This segment uses the MIF Credit Facility to finance its lending activities until the loans are delivered to third party buyers. The MIF Credit Facility will expire on April 25, 2008. In the past, we have been able to obtain renewals of the MIF Credit Facility at the time of its maturity. If we are unable to renew or replace the MIF Credit Facility when it matures in April 2008, it could seriously impede the activities of our Financial Services segment.

We may not be able to utilize all of our deferred tax assets.

We currently believe that we are likely to have sufficient taxable income in the future to realize the benefit of all our net deferred tax assets (consisting primarily of valuation adjustments, reserves and accruals that are not currently deductible for tax purposes, as well as operating loss carryforwards from losses we incurred during fiscal 2007). However, some or all of these deferred tax assets could expire unused if we are unable to generate sufficient taxable income in the future to take advantage of them or we enter into transactions that limit our right to use them. If it became more likely than not that deferred tax assets would expire unused, we would have to increase our valuation allowance to reflect this fact, which could materially increase our income tax expense and adversely affect our results of operations and tangible net worth in the period in which it is recorded.

Our income tax provision and other tax liabilities may be insufficient if taxing authorities are successful in asserting tax positions that are contrary to our position.

From time to time, we are audited by various federal, state and local authorities regarding income tax matters. Significant judgment is required to determine our provision for income taxes and our liabilities for federal, state, local and other taxes. Our audits are in various stages of completion; however, no outcome for a particular audit can be determined with certainty prior to the conclusion of the audit, appeal and, in some cases, litigation process. Although we believe our approach to determining the appropriate tax treatment is supportable and in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 109, “Accounting for Income Taxes,” and Financial Accounting Standards Board (“FASB”) Interpretation No. 48, “Accounting for Uncertainty in Income Taxes,” it is possible that the final tax authority will take a tax position that is materially different than that which is reflected in our income tax provision and other tax reserves. As each audit is conducted, adjustments, if any, are appropriately recorded in our Consolidated Financial Statements in the period determined. Such differences could have a material adverse effect on our income tax provision or benefit, or other tax reserves, in the reporting period in which such determination is made and, consequently, on our results of operations, financial position and/or cash flows for such period.

Homebuilding is subject to warranty and liability claims in the ordinary course of business that can be significant.

As a homebuilder, we are subject to home warranty and construction defect claims arising in the ordinary course of business. We record warranty and other reserves for homes we sell based on historical experience in our markets and our judgment of the qualitative risks associated with the types of homes built. We have, and require the majority of our subcontractors to have, general liability, workers' compensation and other business insurance. These insurance policies protect us against a portion of our risk of loss from claims, subject to certain self-insured retentions, deductibles and other coverage limits. We reserve for the costs to cover our self-insured retentions and deductible amounts under these policies and for any costs of claims and lawsuits based on an analysis of our historical claims, which includes an estimate of claims incurred but not yet reported. Because of the uncertainties inherent to these matters, we cannot provide assurance that our insurance coverage, our subcontractors' arrangements and our reserves will be adequate to address all of our warranty and construction defect claims in the future. For example, contractual indemnities can be difficult to enforce, we may be responsible for applicable self-insured retentions, and some types of claims may not be covered by insurance or may exceed applicable coverage limits. Additionally, the coverage offered and the availability of general liability insurance for construction defects are currently limited and costly. We have responded to the recent increases in insurance costs and coverage limitations by increasing our self-insured retentions. There can be no assurance that coverage will not be further restricted and may become even more costly or may not be available at rates that are acceptable to us.

Natural disasters and severe weather conditions could delay deliveries, increase costs and decrease demand for homes in affected areas.

Several of our markets, specifically our operations in Florida, North Carolina and Washington, D.C., are situated in geographical areas that are regularly impacted by severe storms, hurricanes and flooding. In addition, our operations in the Midwest can be impacted by severe storms, including tornados. The occurrence of these or other natural disasters can cause delays in the completion of, or increase the cost of, developing one or more of our communities, and as a result could materially and adversely impact our results of operations.

Supply shortages and other risks related to the demand for skilled labor and building materials could increase costs and delay deliveries.

The residential construction industry has, from time to time, experienced significant material and labor shortages in insulation, drywall, brick, cement and certain areas of carpentry and framing, as well as fluctuations in lumber prices and supplies. Any shortages of long duration in these areas could delay construction of homes, which could adversely affect our business and increase costs. We have not experienced any significant issues with availability of building materials or skilled labor.

We are subject to extensive government regulations which could restrict our homebuilding or financial services business.

The homebuilding industry is subject to increasing local, state and federal statutes, ordinances, rules and regulations concerning zoning, resource protection, building design and construction and similar matters. This includes local regulations that impose restrictive zoning and density requirements in order to limit the number of homes that can eventually be built within the boundaries of a particular location. Such regulation also affects construction activities, including construction materials that must be used in certain aspects of building design, as well as sales activities and other dealings with homebuyers. We must also obtain licenses, permits and approvals from various governmental agencies for our development activities, the granting of which are beyond our control. Furthermore, increasingly stringent requirements may be imposed on homebuilders and developers in the future. Although we cannot predict the impact on us to comply with any such requirements, such requirements could result in time-consuming and expensive compliance programs. In addition, we have been, and in the future may be, subject to periodic delays or may be precluded from developing certain projects due to building moratoriums. These moratoriums generally relate to insufficient water supplies or sewage facilities, delays in utility hookups, or inadequate road capacity within the specific market area or subdivision. These moratoriums can occur prior to, or subsequent to, commencement of our operations, without notice or recourse.

We are also subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning the protection of health and the environment. The particular environmental laws that apply to any given project vary greatly according to the project site and the present and former uses of the property. These environmental laws may result in delays, cause us to incur substantial compliance costs (including substantial expenditures for pollution and water quality control), and prohibit or severely restrict development in certain environmentally sensitive regions. Although there can be no assurance that we will be successful in all cases, we have a general practice of requiring resolution of environmental issues prior to purchasing land in an effort to avoid major environmental issues in our developments.

In addition to the laws and regulations that relate to our homebuilding operations, M/I Financial is subject to a variety of laws and regulations concerning the underwriting, servicing and sale of mortgage loans.

We are dependent on the services of certain key employees, and the loss of their services could hurt our business.

Our future success depends, in part, on our ability to attract, train and retain skilled personnel. If we are unable to retain our key employees or attract, train and retain other skilled personnel in the future, it could impact our operations and result in additional expenses for identifying and training new personnel.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own and operate an approximately 85,000 square foot office building for our home office in Columbus, Ohio and lease all of our other offices.

Due to the nature of our business, a substantial amount of property is held as inventory in the ordinary course of business. See “ITEM 1. BUSINESS – Land Acquisition and Development.”

ITEM 3. LEGAL PROCEEDINGS

We are involved in routine litigation incidential to our business. Management does not believe any of this litigation is material to our business or our consolidated financial statements.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common shares are traded on the New York Stock Exchange under the symbol "MHO." As of February 22, 2008, there were approximately 460 record holders of the Company's common shares. At that date, there were 17,626,123 common shares issued and 14,004,890 common shares outstanding. The table below presents the highest and lowest sales prices for the Company's common shares during each of the quarters presented:

2007	HIGH	LOW
First quarter	$ 38.25	$ 26.46
Second quarter	31.40	25.11
Third quarter	29.74	13.45
Fourth quarter	18.02	8.91
2006		
First quarter	$ 49.44	$ 35.00
Second quarter	49.05	29.95
Third quarter	37.72	30.12
Fourth quarter	39.11	33.16

The highest and lowest sales prices for the Company's common shares from January 1, 2008 through February 22, 2008 were $18.50 and $7.21, respectively.

The Company typically declares dividends on a quarterly basis, as approved by the Board of Directors. Dividends paid to common shareholders totaled $1.4 million in each of the years ended December 31, 2007 and 2006. On both November 14, 2007 and February 13, 2008, the Board of Directors approved a $0.025 per share cash dividend payable to shareholders of record of its common shares on January 2, 2008 and April 1, 2008, respectively, payable on January 17, 2008 and April 18, 2008, respectively.

The Company is required under its revolving credit facility to maintain a certain amount of tangible net worth, and as of December 31, 2007, had approximately $40.0 million available for payment of dividends. Under the indenture covering our senior notes, payments for dividends and share repurchases are subject to a limitation, with increases in the limitation resulting from issuances of equity interests and quarterly net earnings and decreases in the limitation resulting from quarterly net losses, with such increases and decreases being cumulative since the March 2005 issuance of the notes. As of December 31, 2007, there was $98.5 million available for the payment of dividends under this covenant.

Performance Graph

The following graph illustrates the Company's performance in the form of cumulative total return to shareholders for the last five calendar years through December 31, 2007, assuming a hypothetical investment of $100 and reinvestment of all dividends paid on such investment, compared to the cumulative total return of the same hypothetical investment in both the Standard and Poor's 500 Index and the Standard & Poor's 500 Homebuilding Index.

	Period Ending					
Index	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
M/I Homes, Inc.	100.00	140.85	199.22	147.14	138.70	38.37
S&P 500	100.00	128.68	142.69	149.70	173.34	182.86
S&P 500 Homebuilding Index	100.00	197.82	264.37	334.65	267.72	110.05

Share Repurchases

On November 8, 2005, the Company obtained authorization from the Board of Directors to repurchase up to $25 million worth of its outstanding common shares. The purchases may occur in the open market and/or in privately negotiated transactions as market conditions warrant. During the twelve month period ended December 31, 2007, the Company did not repurchase any shares. As of December 31, 2007, the Company had approximately $6.7 million available to repurchase outstanding common shares from the November 2005 Board approval.

Issuer Purchases of Equity Securities

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (a)
October 1 to October 31, 2007	-	-	-	$6,715,000
November 1 to November 30, 2007	-	-	-	$6,715,000
December 1 to December 31, 2007	-	-	-	$6,715,000
Total	-	-	-	$6,715,000

(a) As of February 22, 2008, the Company had purchased a total of 473,300 shares at an average price of $38.63 per share pursuant to the existing Board-approved $25 million repurchase program that was publicly announced on November 10, 2005, and had approximately $6.7 million remaining available for repurchase under the $25 million repurchase program, which expires on November 8, 2010.

ITEM 6. SELECTED FINANCIAL DATA (a)

The following table sets forth our selected consolidated financial data as of the dates and for the periods indicated. This table should be read together with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements, including the Notes thereto, appearing elsewhere in this Annual Report on Form 10-K.

(In thousands, except per share amounts)	2007	2006	2005	2004	2003
Income Statement (Year Ended December 31):					
Revenue	$ 1,016,460	$ 1,274,145	$ 1,312,504	$ 1,132,002	$ 1,038,805
Gross margin (b)	$ 35,487	$ 247,719	$ 329,917	$ 286,602	$ 258,550
Net (loss) income from continuing operations (b)	$ (92,480)	$ 29,297	$ 98,574	$ 73,516	$ 53,287
Discontinued operations, net of tax	$ (35,646)	$ 9,578	$ 2,211	$ 18,018	$ 28,443
Net (loss) income	$ (128,126)	$ 38,875	$ 100,785	$ 91,534	$ 81,730
Preferred dividends	$ 7,313	-	-	-	-
Net (loss) income to common shareholders (b)	$ (135,439)	$ 38,875	$ 100,785	$ 91,534	$ 81,730
(Loss) earnings per share to common shareholders:					
Basic: (b)					
Continuing operations	$ (7.14)	$ 2.10	$ 6.89	$ 5.21	$ 3.69
Discontinuing operations	$ (2.55)	$ 0.68	$ 0.16	$ 1.28	$ 1.97
Total	$ (9.69)	$ 2.78	$ 7.05	$ 6.49	$ 5.66
Diluted: (b)					
Continuing operations	$ (7.14)	$ 2.07	$ 6.78	$ 5.10	$ 3.59
Discontinuing operations	$ (2.55)	$ 0.67	$ 0.15	$ 1.25	$ 1.92
Total	$ (9.69)	$ 2.74	$ 6.93	$ 6.35	$ 5.51
Weighted average shares outstanding:					
Basic	13,977	13,970	14,302	14,107	14,428
Diluted	13,977	14,168	14,539	14,407	14,825
Dividends per common share	$ 0.10	$ 0.10	$ 0.10	$ 0.10	$ 0.10
Balance Sheet (December 31):					
Inventory	$ 797,329	$ 1,092,739	$ 984,279	$ 761,077	$ 576,000

Total assets	$	1,117,645	$	1,477,079	$	1,329,678	$	978,526	$	746,872
Notes and mortgage notes payable	$	162,103	$	446,844	$	313,165	$	317,370	$	129,614
Senior notes	$	198,912	$	198,656	$	198,400		-		-
Subordinated notes		-		-		-		-	$	50,000
Shareholders' equity	$	581,345	$	617,052	$	592,568	$	487,611	$	402,409

(a) In December 2007, we sold substantially all of our assets in our West Palm Beach, Florida market and announced our exit from this market. The results of operations for this market for all years presented have been reclassified as discontinued operations in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

(b) 2007 and 2006 includes the impact of charges relating to the impairment of inventory and investment in unconsolidated LLCs, reducing gross margin by $148.4 million and $67.2 million for the years ended December 31, 2007 and 2006, respectively. Those charges, along with the write-off of land deposits, intangibles and pre-acquisition costs, reduced net (loss) income from continuing operations by $96.9 million and $46.7 million and (loss) earnings per diluted share by $6.71 and $3.29 for the years ended December 31, 2007 and 2006, respectively.

ITEM 7. 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 71,000 homes since we commenced homebuilding in 1976. The Company's homes are marketed and sold under the trade names M/I Homes and Showcase Homes. The Company has homebuilding operations in Columbus and Cincinnati, Ohio; Indianapolis, Indiana; Tampa and Orlando, Florida; Charlotte and Raleigh, North Carolina; and the Virginia and Maryland suburbs of Washington, D.C. In 2006, the latest year for which information is available, we were the 21st largest U.S. single-family homebuilder (based on homes delivered) as ranked by Builder Magazine.

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

- Information Relating to Forward-Looking Statements;
- Our Application of Critical Accounting Estimates and Policies;
- Our Results of Operations;
- Discussion of Our Liquidity and Capital Resources;
- 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," "estimates," variations of such words and similar expressions are intend identify such forward-looking statements. These statements involve a number of risks and uncertainties. Any forward-looking statements that we make herein and in future reports and statements are not guarantees of future performance, and actual results may differ materially from those in such forward-looking statements as a result of various factors relating to the economic environment, interest rates, availability of resources, competition, market concentration, land development activities and various governmental rules and regulations, as more fully discussed in the "Risk Factors" section of this Annual Report on Form 10-K. Any forward-looking statement speaks only as of the date made. Except as required by applicable law or the rules and regulations of the SEC, we undertake no obligation to publicly update any forward-looking statements or risk factors, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in our subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995, and all of our forward-looking statements are expressly qualified in their entirety by the cautionary statements contained or referenced in this section.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. On an ongoing basis, management evaluates such estimates and judgments and makes adjustments as deemed necessary. Actual results could differ from these estimates using different estimates and assumptions, or if conditions are significantly different in the future. Listed below are those estimates that we believe are critical to our financial condition and results of operations and require the use of complex judgment in their application.

Revenue Recognition. Revenue from the sale of a home is recognized when the closing has occurred, title has passed, and an adequate initial and continuing investment by the homebuyer is received, in accordance with

Statement of Financial Accounting Standards No. 66, "Accounting for Sales of Real Estate" ("SFAS 66"), or when the loan has been sold to a third party investor. Revenue for homes that close to the buyer having a deposit of 5% or greater, home closings financed by third parties and all home closings insured under FHA or VA government-insured programs are recorded in the financial statements on the date of closing.

Revenue related to all other home closings initially funded by our wholly-owned subsidiary, M/I Financial Corp. ("M/I Financial"), is recorded on the date that M/I Financial sells the loan to a third party investor, because the receivable from the third party investor is not subject to future subordination and the Company has transferred to this investor the usual risks and rewards of ownership that is in substance a sale and does not have a substantial continuing involvement with the home, in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140").

All associated homebuilding costs are charged to cost of sales in the period when the revenues from home closings are recognized. Homebuilding costs include land and land development costs, home construction costs (including an estimate of the costs to complete construction), previously capitalized interest, real estate taxes, indirect costs, and estimated warranty costs. All other costs are expensed as incurred. Sales incentives, including pricing discounts and financing costs paid by the Company, are recorded as a reduction of Revenue in the Company's Consolidated Statements of Operations. Sales incentives in the form of options or upgrades are recorded in homebuilding costs in accordance with Emerging Issues Task Force No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of a Vendor's Products)."

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

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

The Company assesses inventories for recoverability in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which requires that long-lived assets be reviewed for impairment whenever events or changes in local or national economic conditions indicate that the carrying amount of an asset may not be recoverable. In conducting our quarterly review for indicators of impairment on a community level, we evaluate, among other things, the margins on homes that have been delivered, margins on sales contracts in backlog, projected margins with regard to future home sales over the life of the community, projected margins with regard to future land sales, and the value of the land itself. We pay particular attention to communities in which inventory is moving at a slower than anticipated absorption pace and communities whose average sales price and/or margins are trending downward and are anticipated to continue to trend downward. From this review, we identify communities whose carrying values may exceed their undiscounted cash flows.

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

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

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

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

Land held for sale. Land held for sale includes land that meets all of the following six criteria defined in SFAS 144: (1) management, having the authority to approve the action, commits to a plan to sell the asset; (2) the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets; (3) an active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated; (4) the sale of the asset is probable, and transfer of the asset is expected to qualify for recognition as a completed sale, within one year; (5) the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (6) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. In accordance with SFAS 144, the Company records land held for sale at the lower of its carrying value or fair value less costs to sell. In performing impairment evaluation for land held for sale, management considers, among other things, prices for land in recent comparable sales transactions, market analysis and recent bona fide offers received from outside third parties, as well as actual contracts. If the estimated fair value less the costs to sell an asset is less than the current carrying value, the asset is written down to its estimated fair value less costs to sell.

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

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

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

As of December 31, 2007, our projections generally assume a gradual improvement in market conditions over time, along with a gradual increase in costs. These gradual increases begin in either 2009 or 2010, depending on the market. If communities are not recoverable based on undiscounted cash flows, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. The fair value of a community is determined by discounting management's cash flow projections using an appropriate risk-adjusted interest rate. As of December 31, 2007, we utilized discount rates ranging from 12% to 15% in the above valuations. The discount rate used in determining each asset's fair value depends on the community's projected life, development stage, and the inherent risks associated with the related estimated cash flow stream. For example, construction in progress inventory which is closer to completion will generally require a lower discount rate than land under development in communities consisting of multiple phases spanning several years of development. We believe our assumptions on discount rates are critical because the selection of a discount rate affects the estimated fair value of the homesites within a community. A higher discount rate reduces the estimated fair value of the homesites within the community, while a lower discount rate increases the estimated fair value of the homesites within a community.

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

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

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

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

In accordance with Accounting Principles Board Opinion No. 18, “The Equity Method of Investments In Common Stock,” and SEC Staff Accounting Bulletin Topic 5.M, “Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities,” the Company evaluates its investment in unconsolidated limited liability companies (“LLCs”) for potential impairment on a quarterly basis. If the fair value of the investment is less than the investment’s carrying value and the Company has determined that the decline in value is other than temporary, the Company would write down the value of the investment to fair value. The determination of whether an investment’s fair value is less than the carrying value requires management to make certain assumptions regarding the amount and timing of future contributions to the limited liability company, the timing of distribution of lots to the Company from the limited liability company, the projected fair value of the lots at the time of distribution to the Company, and the estimated proceeds from, and timing of, the sale of land or lots to third parties. In determining the fair value of investments in unconsolidated LLCs, the Company evaluates the projected cash flows associated with the LLC using a probability-weighted approach based on the likelihood of different outcomes. As of December 31, 2007, the Company used a discount rate of 15% in determining the fair value of investments in unconsolidated LLCs. In addition to the assumptions management must make to determine if the investment's fair value is less than the carrying value, management must also use judgment in determining whether the impairment is other than temporary. The factors management considers are: (1) the length of time and the extent to which the market value has been less than cost; (2) the financial condition and near-term prospects of the Company; and (3) the intent and ability of the Company to retain its investment in the limited liability company for a period of time sufficient to allow for any anticipated recovery in market value. In situations where the investments are 100% equity financed by the partners, and the joint venture simply distributes lots to its partners, the Company evaluates "other than temporary" by preparing an undiscounted cash flow model as described in inventories above for operating communities. If such model results in positive value versus carrying value, the Company determines that the impairment is temporary; otherwise, the Company determines that the impairment is other than temporary and impairs the investment. Because of the high degree of judgment involved in developing these assumptions, it is possible that the Company may determine the investment is not impaired in the current period but, due to passage of time or change in market conditions leading to changes in assumptions, impairment could occur.

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

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

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

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

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

Self-insurance. Self-insurance accruals are made for estimated liabilities associated with employee health care, Ohio workers' compensation and general liability insurance. Our self-insurance limit for employee health care is $250,000 per claim per year for fiscal 2007, with stop loss insurance covering amounts in excess of $250,000 up to $2,000,000 per claim per year. Our self-insurance limit for workers' compensation is $400,000 per claim with stop loss insurance covering all amounts in excess of this limit. The accruals related to employee health care and workers' compensation are based on historical experience and open cases. Our general liability claims are insured by a third party; the Company generally has a $7.5 million deductible per occurrence and $18.25 million in the aggregate, with lower deductibles for certain types of claims. The Company records a general liability accrual for claims falling below the Company's deductible. The general liability accrual estimate is based on an actuarial evaluation of our past history of claims and other industry specific factors. The Company has recorded expenses totaling $3.8 million, $7.0 million and $6.4 million, respectively, for all self-insured and general liability claims during the years ended December 31, 2007, 2006 and 2005. Because of the high degree of judgment required in determining these estimated accrual amounts, actual future costs could differ from our current estimated amounts.

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

Derivative Financial Instruments. To meet financing needs of our home-buying customers, M/I Financial is party to interest rate lock commitments ("IRLCs"), which are extended to customers who have applied for a mortgage loan and meet certain defined credit and underwriting criteria. These IRLCs are considered derivative financial instruments under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). M/I Financial manages interest rate risk related to its IRLCs and mortgage loans held for sale through the use of forward sales of mortgage-backed securities ("FMBSs"), use of best-efforts whole loan delivery commitments and the occasional purchase of options on FMBSs in accordance with Company policy. These FMBSs, options on FMBSs and IRLCs covered by FMBSs are considered non-designated derivatives. In determining fair value of IRLCs, M/I Financial considers the value of the resulting loan if sold in the secondary market. That value includes the price that the loan is expected to be sold for along with the value of excess servicing. Neither servicing release premiums nor net normal servicing cash flows are included in determining the value. This determines the initial fair value, which is indexed to zero at inception. Subsequent to inception, M/I Financial estimates an updated fair value which is compared to the initial fair value. In addition, M/I Financial uses fallout estimates which fluctuate based on the rate of the IRLC in relation to current rates. In accordance with SFAS 133 and related Derivatives Implementation Group conclusions, gains or losses are recorded in financial services revenue. Certain IRLCs and mortgage loans held for sale are committed to third party investors through the use of best-efforts whole loan delivery commitments. In accordance with SFAS 133, the IRLCs and related best-efforts whole loan delivery commitments, which generally are highly effective from an economic standpoint, are considered non-designated derivatives and are accounted for at fair value with gains or losses recorded in financial services revenue. Under the terms of these best-efforts whole loan delivery commitments covering mortgage loans held for sale, the specific committed mortgage loans held for sale are identified and matched to specific delivery commitments on a loan-by-loan basis. The delivery commitments are designated as fair value hedges of the mortgage loans held for sale, and both the delivery commitments and loans held for sale are recorded at fair value, with changes in fair value recorded in financial services revenue.

Income Taxes—Valuation Allowance. In accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"), a valuation allowance is recorded against a deferred tax asset if, based on the weight of available evidence, it is more-likely-than-not (a likelihood of more than 50%) that some portion or the entire deferred tax asset will not be realized. The realization of a deferred tax asset ultimately depends on the existence of sufficient taxable income in either the carryback or carryforward periods under tax law. The four sources of taxable income to be considered in determining whether a valuation allowance is required include:

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

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

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

Examples of negative evidence may include:

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

The weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified. A company must use judgment in considering the relative impact of positive and negative evidence. At December 31, 2007, after considering a number of factors, most notably our strong earnings history, we did not establish a valuation allowance except for $250,000 related to the phase out of income taxes in the state of Ohio.

Future adjustments to our deferred tax asset valuation allowance will be determined based upon changes in the expected realization of our net deferred tax assets. For example, the valuation allowance could change significantly if the $67.9 million of net deferred tax assets remaining at December 31, 2007 is not realized during fiscal 2008 through federal or state carryback or reversals of existing taxable temporary differences. This could occur if actual levels of home closings and/or land sales during 2008 are less than currently projected. Additionally, our determination with respect to recording a valuation allowance may be further impacted by, among other things:

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

Because a valuation allowance can be impacted by any one or a combination of the foregoing factors, we do not believe it is possible to develop a meaningful sensitivity analysis associated with potential adjustments to the valuation allowance on our deferred tax assets. Additionally, due to the considerable estimates utilized in establishing a valuation allowance and the potential for changes in facts and circumstances in future reporting periods, it is reasonably possible that we will be required to either increase or decrease our valuation allowance in future reporting periods.

Income Taxes—FIN 48. The Company evaluates tax positions that have been taken or are expected to be taken in tax returns, and records the associated tax benefit or liability in accordance with Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes". Tax positions are recognized when it is more-likely-than-not that the tax position would be sustained upon examination. The tax position is measured at the largest amount of benefit that has a greater than 50% likelihood of being realized upon settlement. Interest and penalties for all uncertain tax positions are recorded within (Benefit) Provision for Income Taxes in the Consolidated Statements of Operations.

RESULTS OF OPERATIONS

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

Our homebuilding operations include the acquisition and development of land, the sale and construction of single-family attached and detached homes, and the occasional sale of lots and land to third parties. The homebuilding operating segments that comprise each of our reportable segments are as follows:

Midwest	Florida (2)	Mid-Atlantic
Columbus, Ohio	Tampa, Florida	Maryland
Cincinnati, Ohio	Orlando, Florida	Virginia
Indianapolis, Indiana		Charlotte, North Carolina
Chicago, Illinois (1)		Raleigh, North Carolina

(1) The Company announced its entry into the Chicago market during the second quarter of 2007, and has not purchased any land or sold or closed any homes in this market as of December 31, 2007.

(2) In December 2007, we sold substantially all of our assets in our West Palm Beach, Florida market and announced our exit from this market. The results of operations for this segment for all years presented have been reclassified as discontinued operations in accordance with SFAS 144 are not included in this segment.

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

Highlights and Trends for the Year Ended December 31, 2007

Overview

The housing market continued to deteriorate throughout 2007. Consumer confidence in housing declined, while the mortgage market began to experience a severe tightening, reducing financing availability, which in turn exacerbated existing conditions, lowering demand and new contracts. The overall market became more and more competitive as the year progressed, and we experienced a great deal of downward pricing through the use of incentives, price reductions and incentivized brokerage fees. Excess inventory of new and existing homes and weakening demand continue to impact us in virtually all of our markets. All of these factors have led to further price competition and margin compression in all of our markets. As a result of these conditions, we incurred impairment charges related to both inventory and investments on continuing operations of $148.4 million. These charges by region were as follows: Midwest - $8.1 million, Florida - $86.5 million and Mid-Atlantic - $53.8 million. We also incurred an additional $58.9 million of inventory impairments in West Palm Beach, Florida, a market we exited in December 2007 and are treating as a discontinued operation for all periods presented in accordance with generally accepted accounting principles. In addition to these impairment charges, we wrote off $3.6 million related to abandoned land transactions and $5.2 million of intangible assets, and incurred $5.4 million of severance costs. However, in the midst of these unprecedented industry conditions, we believe we have made progress on a number of fronts during the year to better position us for the future:

We reduced our owned inventory position by 30%, generating cash from land sales of $83 million and net cash from operations of $119 million. As a result of our land sales, we were able to monetize the loss on sale using carry backs for federal income tax purposes and received a $50 million tax refund in the first quarter of 2008.

We completed a $100 million preferred share offering in 2007's first quarter, which we believe improves our overall capital structure.

As a result of the first two actions, our homebuilding net debt to capital ratio now stands at 33% versus 44% a year ago. We plan to further reduce our inventory of owned lots with additional land sales, and limit land and lot purchases and land development spending. We expect to generate positive cash flow during 2008 and completely pay off the debt under our homebuilding credit facility by the end of 2008. The remaining $200 million aggregate principal amount of our senior notes is not due until 2012.

We reduced, and continue to reduce overhead, in an effort to be "right-sized" for anticipated lower volume levels. While it has been challenging to stay ahead of rapidly adjusting market conditions and resulting revenue reductions, we have reduced our workforce to date by over 40% from our peak in early 2006.

Key Financial Results

For the year ended December 31, 2007, total revenue decreased $257.7 million (20%) from 2006 due to a decrease in housing revenue from $1.2 billion to $939.5 million. The decrease in housing revenue was due to a 19% decrease in homes delivered to 3,173 in 2007 from 3,901 in 2006 and a decrease in the average sales price of homes delivered of 4%, from $308,000 in 2006 to $296,000 in 2007. Revenue from the sale of land to outside parties increased $9.5 million (19%) from $48.9 million in 2006 to $58.3 million in 2007. Our financial services revenue decreased 30% from $27.1 million in 2006 to $19.1 million in 2007 due to a 14% decrease in loan originations, from 2,729 in 2006 to 2,340 in 2007. We currently estimate 2008 homes delivered to be approximately 2,500, with regional breakdown of 50% in the Midwest, 20% in Florida and 30% in the Mid-Atlantic region.

For the years ended December 31, 2007 and 2006, our gross margin percentages were 3.5% and 19.4%, respectively. Excluding impairment charges referred to above and 2006 impairment charges, our gross margin percentages for 2007 and 2006 were 18.1% and 24.7%, respectively. Gross margin percentage excluding impairment charges is a non-GAAP financial measure disclosed by certain of our competitors and has been presented by us because we find it useful in evaluating our operating performance and believe that it helps readers of our financial statements compare our operations with those of our competitors.

Income before taxes decreased $196.2 million, from income of $45.3 million in 2006 to a loss of ($150.9) million in 2007. The decrease was driven by the $148.4 million of charges relating to the impairment of inventory and investments in unconsolidated LLCs in certain of our markets. Partially offsetting the decrease in income before taxes was the decrease in general and administrative expenses of $5.2 million largely driven by a reduction of payroll due to reduced headcount, and a decrease in selling expenses of $10.3 million due to a reduction in variable selling expenses (sales commissions and realtor commissions) and advertising expenses as a result of volume declines.

New contracts for 2007 were down 12%, from 2,800 in 2006 to 2,452 in 2007. As a result of deteriorating market conditions, all of our regions experienced reduced traffic levels, weaker demand, an over-supply of inventory and significant competitor discounting. Despite the current conditions, we saw a decrease in our cancellation rate, which was 32.7% for the year ended December 31, 2007 compared to 36.8% for the same period in 2006. As a result of the continued softened market conditions and oversupply of inventory, we experienced an 18% decrease in new contracts in our Florida region and a 21% decline in new contracts in our Midwest region. Our Mid-Atlantic region new contracts increased 12% due primarily to sales results in our Raleigh and Washington, D.C. markets.

As a result of lower refinance volume for outside lenders and increased competition, during 2008 we expect to experience continued pressure on our mortgage company's capture rate, which was approximately 79% during 2007 and 80% during 2006. This could continue to negatively impact earnings.

As discussed above, we are experiencing changes in market conditions that require us to constantly monitor the value of our inventories and investments in unconsolidated LLCs in those markets in which we operate, in accordance with generally accepted accounting principles. During the year ended December 31, 2007, we recorded $148.4 million of charges relating to the impairment of inventory and investment in unconsolidated LLCs and $58.9 million of inventory impairment on our discontinued operation. We generally believe that we will see a gradual improvement in market conditions beginning in 2009. During 2008, we will continue to update our evaluation of the value of our inventories and investments for impairment, and could be required to record additional impairment charges, which would negatively impact earnings, should market conditions deteriorate further or results differ from management's assumptions.

Our effective income tax rate for 2007 was 38.7%, compared to 35.3% for 2006. The increase in the effective rate is primarily due to the impact of losing the Section 199 deduction taken in previous years that is now disallowed as a result of our loss position and our carryback to those years. Refer to Note 19 to our Consolidated Financial Statements for further information regarding our income taxes.

	Year Ended December 31,		
(In thousands)	2007	2006	2005
Revenue:			
Midwest homebuilding	$ 358,441	$ 493,156	$ 650,689
Florida homebuilding	312,930	496,998	347,372
Mid-Atlantic homebuilding	326,451	260,059	