M I HOMES INC
Form 424B5
September 06, 2012
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Registration File No. 333-176088

Prospectus supplement

(To Prospectus dated September 30, 2011)

$50,000,000

M/I Homes, Inc.

3.25% Convertible Senior Subordinated Notes due 2017

We are offering $50,000,000 of our 3.25% Convertible Senior Subordinated Notes due 2017 (the notes). The notes will bear interest at a rate of 3.25% per year, payable semiannually in arrears on March 15 and September 15 of each year, beginning on March 15, 2013. The notes will mature on September 15, 2017.

At any time prior to the close of business on the second scheduled trading day immediately preceding the stated maturity date, holders may convert their notes into our common shares, as described under Description of notes Conversion rights Settlement upon conversion. The conversion rate will initially equal 42.0159 of our common shares per $1,000 principal amount of notes (equivalent to an initial conversion price of approximately $23.80 per common share). The conversion rate will be subject to adjustment upon the occurrence of certain events, but will not be adjusted for any accrued and unpaid interest. In addition, following the occurrence of a make-whole fundamental change, we will, in certain circumstances, increase the conversion rate for a holder that converts its notes in connection with such make-whole fundamental change.

We may not redeem the notes prior to the stated maturity date. No sinking fund is provided for the notes.

If a fundamental change occurs prior to the stated maturity date, holders may require us to repurchase for cash all or any portion of their notes at a fundamental change repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest (including additional amounts, if any) to, but excluding, the fundamental change repurchase date.

The notes will be our senior subordinated unsecured obligations and will be subordinated in right of payment to our existing and future senior indebtedness, including our indebtedness under our $140 million secured revolving credit facility dated June 9, 2010, as amended (the Credit Facility), and our outstanding 8.625% Senior Notes due 2018 (the 2018 Senior Notes). The notes will rank senior in right of payment to our future subordinated indebtedness. The notes will be effectively subordinated to our existing and future secured indebtedness, including our indebtedness under the Credit Facility, to the extent of the value of the assets securing such indebtedness. The notes will be fully and unconditionally guaranteed on a senior subordinated unsecured basis by all of our subsidiaries that, as of the date of issuance of the notes, are guarantors under our 2018 Senior Notes. See Description of notes Subordination.

For a more complete description of the terms of the notes, see the Description of notes section of this prospectus supplement. The notes are a new issue of securities and there currently is no established trading market for the notes. We do not intend to apply to list the notes on any securities exchange or to include them in any automated quotation system. It is possible that no active trading market for the notes will develop, or that if it develops, it will not be maintained. Our common shares are listed on the New York Stock Exchange under the symbol MHO. The last reported sale price of our common shares on September 5, 2012 was $17.63 per share.

We have granted the underwriters an option, exercisable for up to 30 days from the date of this prospectus supplement, to purchase up to an additional $7,500,000 principal amount of the notes at the public offering price less the underwriting discounts solely to cover over-allotments, if any.

Concurrently with this offering, under a separate prospectus supplement, we are offering up to 2,200,000 of our common shares. Neither this offering nor the offering of common shares is contingent on the completion of the other.

Investing in the notes and the underlying common shares involves a high degree of risk. See Risk factors beginning on page S-10.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement. Any representation to the contrary is a criminal offense.

Price of notes: 100% plus accrued interest, if any, from the issue date.

We expect to deliver the notes to investors through the book-entry facilities of The Depository Trust Company on or about September 11, 2012.

Joint book-running managers

J.P. Morgan **Citigroup**

Lead managers

JMP Securities **US Bancorp**

Co-managers

Comerica Securities **PNC Capital Markets LLC** **The Huntington Investment Company**

September 5, 2012

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information or represent anything about us, our financial results or this offering that is not contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We are not, and the underwriters are not, making an offer to sell these securities or soliciting an offer to buy these securities in any state or other jurisdiction where the offer or solicitation is not permitted. You should not assume that the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus is accurate on any date subsequent to the date set forth on the front of this prospectus supplement or the date of incorporation by reference, even though this prospectus supplement and the accompanying prospectus may be delivered or securities may be sold on a later date.

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About this prospectus supplement

This document is in two parts. The first part is this prospectus supplement, which describes the terms of the offering of the notes and also adds to and updates information contained in the accompanying prospectus as well as the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part, the accompanying prospectus, gives more general information about securities we may offer from time to time, some of which information does not apply to the notes we are offering. To the extent any inconsistency or conflict exists between the information included in this prospectus supplement and the information included in the accompanying prospectus, the information included or incorporated in this prospectus supplement updates and supersedes the information in the accompanying prospectus. This prospectus supplement incorporates by reference important business and financial information about us that is not included in or delivered with this prospectus supplement.

Unless otherwise indicated or unless the context requires otherwise, all references in this prospectus supplement and the accompanying prospectus to M/I, us, we, our or the Company mean M/I Homes, Inc., an Ohio corporation, and our consolidated subsidiaries, except where made clear that the terms mean M/I Homes, Inc. only.

Unless otherwise indicated, all information in this prospectus supplement assumes the underwriters option to purchase additional notes will not be exercised.

Industry and market data

We obtained the market and competitive position data used throughout this prospectus supplement, the accompanying prospectus and the documents incorporated by reference from our own research, surveys or studies conducted by third parties and industry or general publications. Industry publications and surveys generally state that they have obtained information from sources believed to be reliable, but do not guarantee the accuracy and completeness of such information. While we believe that each of these studies and publications is reliable, neither we nor the underwriters have independently verified such data and neither we nor the underwriters make any representation as to the accuracy of such information. Similarly, we believe our internal research is reliable, but it has not been verified by any independent sources.

Forward-looking statements

Certain information contained or incorporated by reference in this prospectus supplement contains forward-looking statements, including, but not limited to, statements regarding our future financial performance and financial condition. Words such as expects, anticipates, envisions, targets, goals, projects, intends, plans, believes, seeks, estimates, variations of such words and similar expressions are intended to i forward-looking statements. These statements involve a number of risks and uncertainties. Any forward-looking statements that we make or incorporate herein 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, including, but not limited to, those referred to below:

the homebuilding industry has experienced a prolonged and severe downturn, and the volume of new home sales in most markets remains at historically depressed levels despite recent signs

of a modest recovery in housing, and such conditions could adversely affect our business and results of operations;

further tightening of residential consumer mortgage lending or mortgage financing requirements or further volatility in credit and consumer lending markets could adversely affect the availability of residential consumer mortgage loans for some potential purchasers of our homes and thereby reduce our sales;

our strategies in responding to the adverse conditions in the homebuilding industry over the past several years and the implementation of additional strategies may not be successful, despite signs of modest recovery in the housing industry in 2012;

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;

if we are unable to successfully compete in the highly competitive homebuilding industry, our financial results and growth may suffer;

if economic conditions worsen or the current challenging economic conditions continue for an extended period of time, this could have continued negative consequences on our operations, financial position, and cash flows;

interest rate increases could lower demand for our homes;

tax law changes could make home ownership more expensive or less attractive;

inflation can adversely affect us, particularly in a period of declining home sale prices;

our limited geographic diversification could adversely affect us if the homebuilding industry in our markets declines;

we may not be successful in integrating acquisitions or implementing our growth strategies;

if we are unable to obtain suitable financing, our business may be negatively impacted;

the mortgage warehousing agreement of our financial services segment will expire in March 2013;

reduced numbers of home sales may force us to absorb additional carrying costs;

we could be adversely affected by a negative change in our credit rating;

errors in estimates and judgments that affect decisions about how we operate and on our reported amounts of assets, liabilities, revenues and expenses could have a material impact on us;

if our ability to resell mortgages to investors is impaired, we may be required to broker loans;

mortgage investors could seek to have us buy back loans or compensate them for losses incurred on mortgages we have sold based on claims that we breached our limited representations or warranties;

we compete on several levels with homebuilders that may have greater sales and financial resources than us, which could hurt our future earnings;

we may not be able to benefit from net operating loss carryforwards;

our net operating loss carryforwards could be substantially limited if we experience an ownership change as defined in Section 382 of the U.S. Internal Revenue Code of 1986, as amended (the Code);

- our results of operations, financial condition and cash flows could be adversely affected if pending or future legal claims against us are not resolved in our favor;
- the terms of our indebtedness may restrict our ability to operate and, if our financial performance declines, we may be unable to maintain compliance with the covenants in the documents governing our indebtedness;
- our indebtedness could adversely affect our financial condition, and we and our subsidiaries may incur additional indebtedness, which could increase the risks created by our indebtedness;
- in the ordinary course of business, we are required to obtain performance bonds, the unavailability of which could adversely affect our results of operations and/or cash flows;
- changes in accounting principles, interpretations and practices may affect our reported revenues, earnings and results of operations;
- we can be injured by failures of persons who act on our behalf to comply with applicable regulations and guidelines;
- we experience fluctuations and variability in our operating results on a quarterly basis and, as a result, our historical performance may not be a meaningful indicator of future results;
- homebuilding is subject to warranty and liability claims in the ordinary course of business which may lead to additional reserves or expenses;
- natural disasters and severe weather conditions could delay deliveries, increase costs and decrease demand for homes in affected areas;
- supply shortages and other risks related to the demand for skilled labor and building materials could increase costs and delay deliveries;
- we are subject to extensive government regulations, which could restrict our homebuilding or financial services business;
- information technology failures and data security breaches could harm our business;
- we are dependent on the services of certain key employees, and the loss of their services could hurt our business; and
- such other factors as may be described from time to time in our filings with the Securities and Exchange Commission (the SEC).

The factors identified in this section are not intended to represent a complete list of all the factors that could adversely affect our business, operating results, financial condition or cash flows. Other factors not presently known to us or that we currently deem immaterial to us may also have an adverse effect on our business, operating results, financial condition or cash flows, and the factors we have identified could affect us to a greater extent than we currently anticipate. Many of the important factors that will determine our future financial performance and financial condition are beyond our ability to control or predict. You are cautioned not to put undue reliance on any forward-looking statements, which speak only as of the date they are 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, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in our subsequent filings and reports with the SEC 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.

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Summary

This summary highlights selected information about us. It may not contain all the information that may be important to you in deciding whether to invest in the notes and the underlying common shares. You should read this entire prospectus supplement and the accompanying prospectus, together with the information incorporated by reference, including the financial data and related notes and the Risk factors sections, before making an investment decision.

The company

M/I Homes, Inc. is one of the nation s leading builders of single-family homes. We were incorporated, through predecessor entities, in 1973 and commenced homebuilding activities in 1976. Since that time, we have sold and delivered over 81,500 homes. We design, market, construct and sell single-family homes, attached townhomes, and condominiums to first-time, move-up, empty-nester and luxury buyers under the M/I Homes, Showcase Homes, TriStone Homes and Triumph Homes trade names.

Our homes are sold in the following geographic markets: Columbus and Cincinnati, Ohio; Indianapolis, Indiana; Chicago, Illinois; Tampa and Orlando, Florida; Houston and San Antonio, Texas; Charlotte and Raleigh, North Carolina; and the Virginia and Maryland suburbs of Washington, D.C. We support our homebuilding operations by providing mortgage financing services through our wholly-owned subsidiary, M/I Financial Corp. (M/I Financial), and title services through subsidiaries that are either wholly- or majority-owned by us.

Our financial reporting segments consist of: Midwest homebuilding; Southern homebuilding; Mid-Atlantic homebuilding; and financial services. Our homebuilding operations comprise the most substantial part of our business, representing 97% of consolidated revenue for the year ended December 31, 2011. Our financial services operations generate revenue from originating and selling mortgages and collecting fees for title insurance and closing services.

For additional information regarding our business, financial condition, results of operations and cash flows, please see our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2012 and June 30, 2012, each of which is incorporated by reference in this prospectus supplement.

Recent developments

For the two-months ended August 31, 2012, our new contracts were 535, a 43% increase over our 373 new contracts in the same period in 2011.

Concurrent offering of common shares

Concurrently with this offering of notes, under a separate prospectus supplement, we are offering up to 2,200,000 of our common shares (2,530,000 shares if the option granted to the underwriters to purchase up to 330,000 additional shares, solely to cover over-allotments, is exercised in full) in an underwritten public offering, which we refer to as the offering of common shares. Neither this offering nor the offering of common shares is contingent on the

completion of the other. The foregoing description and other information regarding the offering of common shares is included herein solely for informational purposes. Nothing in this prospectus supplement should be construed as an offer to sell, or the solicitation of an offer to buy, any shares in the offering of common shares.

Corporate information

M/I Homes, Inc. is an Ohio corporation incorporated through predecessor entities in 1973. Our executive offices are located at 3 Easton Oval, Suite 500, Columbus, Ohio 43219, and our telephone number is (614) 418-8000. Our website address is www.mihomes.com. Information on our website is not incorporated by reference in or otherwise a part of this prospectus supplement.

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The offering

The following is a summary of the terms of the notes and related guarantees. It may not contain all the information that is important to you. For a more complete description of the notes and related guarantees, please refer to the section of this prospectus supplement entitled Description of notes and the accompanying prospectus entitled Description of Debt Securities.

Issuer	M/I Homes, Inc.
Notes Offered	$50,000,000 aggregate principal amount of 3.25% Convertible Senior Subordinated Notes due 2017, plus up to an additional $7,500,000 aggregate principal amount if the underwriters exercise their option to purchase additional notes solely to cover over-allotments, if any.
Maturity	September 15, 2017, unless earlier purchased or converted.
Interest	3.25% per year, payable semi-annually in arrears in cash on March 15 and September 15 of each year, beginning on March 15, 2013, to holders of record at the close of business on the March 1 or September 1, as the case may be, immediately preceding the relevant interest payment date. The first interest payment date will include interest from September 11, 2012 the date of the original issuance.
No Redemption	We may not redeem the notes prior to the stated maturity date.
Fundamental Change	If a fundamental change (as defined under Description of notes Conversion rights Repurchase of notes at option of holder upon a fundamental change) occurs prior to maturity of the notes, each holder will have the right, subject to certain conditions, to require us to repurchase for cash all or any portion of its notes at a repurchase price equal to 100% of the aggregate principal amount of the notes being repurchased, plus accrued and unpaid interest (including additional amounts, if any) to, but excluding, the fundamental change repurchase date.
Conversion Rights	Until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their notes, in multiples of $1,000 principal amount, at any time.
	The initial conversion rate for the notes is 42.0159 of our common shares per $1,000 principal amount of notes. This is equivalent to an initial conversion price of approximately $23.80 per common share.
	Upon surrender of notes for conversion, we will deliver our common shares, together with cash in lieu of any fractional common shares, in satisfaction of our conversion obligation, as described under Description of notes Conversion rights Settlement upon conversion.
	Holders will not receive any cash payment or additional common shares with regard to accrued and unpaid interest upon conversion of

a note, except in limited circumstances. Instead, interest, including additional amounts, if any, will be deemed paid by the common shares, together with any cash payment in lieu of any fractional share, we deliver to holders upon conversion.

The conversion rate for the notes is subject to adjustment as described under Description of notes Conversion rights Conversion rate adjustments. An adjustment to the conversion rate will result in a corresponding (but inverse) adjustment to the conversion price.

In addition, if a holder elects to convert its notes in connection with a make-whole fundamental change (as defined under Description of notes Conversion rights Adjustment to shares delivered upon conversion upon a make-whole fundamental change), we will increase the conversion rate by a number of additional common shares as described under Description of notes Conversion rights Adjustment to shares delivered upon conversion upon a make-whole fundamental change.

Guarantees

The notes will be fully and unconditionally guaranteed on a senior subordinated unsecured basis by all of our subsidiaries that, as of the date of issuance of the notes, are guarantors under our 2018 Senior Notes. Each of the guarantors of the notes is 100% owned (as defined in Section 3-10(h)(1) of Regulation S-X) by the Company. For the year ended December 31, 2011, our non-guarantor subsidiaries accounted for approximately $14.5 million, or 2.6%, of our total revenues, and as of June 30, 2012, our non-guarantor subsidiaries accounted for approximately $68.1 million, or 10.2%, of our total assets and $51.9 million, or 13.1%, of our total liabilities.

Ranking

The notes and the guarantees of the notes will be our and our subsidiary guarantors senior subordinated unsecured obligations and will be:

senior in right of payment to all our and our subsidiary guarantors future subordinated indebtedness;

equal in right of payment with all our and our subsidiary guarantors future senior subordinated indebtedness;

subordinated in right of payment to all our and our subsidiary guarantors existing and future senior indebtedness, including our indebtedness under the Credit Facility and our 2018 Senior Notes;

effectively subordinated to all our and our subsidiary guarantors existing and future secured indebtedness, including our indebtedness under the Credit Facility, to the extent of the value of the assets securing such indebtedness; and

structurally subordinated to the liabilities of any of our subsidiaries that do not guarantee the notes, to the extent of the assets of such non-guarantor subsidiaries.

	See Description of notes Subordination.
	As of June 30, 2012, after giving effect to the issuance of the notes in this offering, we had approximately $288.2 million of indebtedness outstanding (excluding issuances of letters of credit and the MIF Mortgage Warehousing Agreement (as defined herein)), $238.2 million of which was senior indebtedness, including $6.4 million of which was senior secured indebtedness, and $52.0 million of available borrowings with respect to secured indebtedness under the Credit Facility. See Capitalization.
	The indenture governing the notes will not limit the amount of debt that we or our subsidiaries may incur.
Failure to Comply with Reporting Obligations	Should an event of default occur as a result of our failure to comply with the reporting obligations in the indenture as described under Description of notes Reporting, your only remedy for 180 days after the occurrence of such an event of default will be the right to receive additional interest on your notes at a rate equal to 0.25% of the principal amount of the notes per annum for each day during the first 90 days after the occurrence of such an event of default, and 0.50% of the principal amount of the notes per annum for each day from the 91st day until the 180th day following the occurrence of such an event of default. See Description of notes Events of default; notice and waiver.
Sinking Fund	None.
DTC Eligibility	The notes will be issued in book-entry form and will be represented by one or more notes in registered global form. The global notes will be deposited with a custodian for and registered in the name of a nominee of DTC. Beneficial interests in global notes will be shown on, and transfers of notes will be effected only through, records maintained by DTC and its direct and indirect participants, and an interest in any global note may not be exchanged for certificated notes, except in limited circumstances described herein. See Description of notes Book-entry, delivery and form.
Form and Denomination	The notes will be issued in minimum denominations of $1,000 and any integral multiple of $1,000.
Trading	We do not intend to apply to list the notes on any securities exchange or to include them in any automated quotation system. The notes are a new issue of securities and there currently is no established trading market for the notes.
Governing Law	The notes, the guarantees of the notes and the indenture will be governed by New York law.

Use of Proceeds	We estimate that the net proceeds to us from the sale of the notes offered hereby will be approximately $47.5 million (or $54.6 million if the underwriters over-allotment option of up to an additional $7,500,000 aggregate principal amount of notes, is exercised in full) after deducting underwriting discounts and the estimated offering expenses payable by us. We intend to use the net proceeds of this offering for general corporate purposes, which may include acquisitions of land, land development, home construction, capital expenditures, increasing our working capital, repayment of indebtedness and other related purposes.
Concurrent Offering of Common Shares	Concurrently with this offering of notes, under a separate prospectus supplement, we are offering up to 2,200,000 of our common shares (2,530,000 shares if the option to purchase up to 330,000 additional shares granted to the underwriters, solely to cover over-allotments, is exercised in full) in an underwritten public offering. Neither this offering nor the offering of common shares is contingent on the completion of the other. For more information, see Concurrent offering of common shares.
Listing	Our common shares are listed on the New York Stock Exchange under the symbol MHO.
Material United States Federal Income and Estate Tax Consequences	The notes and our common shares issuable upon conversion of the notes, if any, will be subject to special and complex U.S. federal income and estate tax rules. Holders are encouraged to consult their tax advisors as to the U.S. federal, state, local or other tax consequences of acquiring, owning and disposing of the notes. See Material United States federal income and estate tax consequences.
Trustee, Paying Agent and Conversion Agent	U.S. Bank National Association
Risk Factors	**An investment in the notes involves various risks, and prospective investors should carefully consider the matters discussed under the caption entitled Risk factors beginning on page S-10 of this prospectus supplement.**

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Summary consolidated financial data

The following table sets forth summary consolidated financial data for the periods indicated. You should read the following summary consolidated financial data in conjunction with our consolidated financial statements and the notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2012, which are incorporated by reference in this prospectus supplement. Results for the six months ended June 30, 2012 are not necessarily indicative of results for the full year or for future periods.

The summary consolidated net income data for the fiscal years ended December 31, 2009, 2010 and 2011 and the summary consolidated balance sheet data as of December 31, 2009, 2010 and 2011 have been derived from our historical audited consolidated financial statements. The summary consolidated net income data for the six months ended June 30, 2011 and 2012 and the summary consolidated balance sheet data as of June 30, 2011 and 2012 have been derived from our unaudited consolidated financial statements.

	Year ended December 31,			Six months ended June 30,	
(in thousands, except per share amounts)	**2009**	**2010**	**2011**	**2011**	**2012**
Net income data:					
Revenue	$ 569,949	$ 616,377	$ 566,424	$ 248,014	$ 302,119
Land and housing costs[1]	494,989	511,408	467,130	206,617	244,441
Impairment of inventory and investment in unconsolidated LLCs	55,421	12,538	21,993	16,316	567
Gross margin	19,539	92,431	77,301	25,081	57,111
General and administrative expenses[2]	59,170	53,958	52,664	24,168	26,283
Selling expenses	43,950	48,084	43,534	19,408	23,836
Interest expense	8,467	9,415	15,005	7,500	8,067
Other loss	941	8,378			
Loss before income taxes[3]	(92,989)	(27,404)	(33,902)	(25,995)	(1,075)
(Benefit) provision for income taxes[4]	(30,880)	(1,135)	(25)	188	(1,093)
Net income (loss)[4][5]	$ (62,109)	$ (26,269)	$ (33,877)	$ (26,183)	$ 18
Net income (loss) available to common shareholders[4][5]	$ (62,109)	$ (26,269)	$ (33,877)	$ (26,183)	$ 18
Per share data:					
Earnings (loss) per share to common shareholders:					
Basic[4][5]	$ (3.71)	$ (1.42)	$ (1.81)	$ (1.40)	$
Diluted[4][5]	$ (3.71)	$ (1.42)	$ (1.81)	$ (1.40)	$
Weighted average shares outstanding:					
Basic	16,730	18,523	18,698	18,663	18,803
Diluted	16,730	18,523	18,698	18,663	18,998
Dividends per common share	$	$	$	$	$

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(in thousands)	2009	2010	December 31, 2011	2011	June 30, 2012
Balance sheet data:					
Cash and cash equivalents	$ 109,930	$ 81,208	$ 59,793	$ 44,900	$ 44,297
Restricted cash[6]	22,302	41,923	41,334	68,902	12,593
Inventory	420,289	450,936	466,772	462,796	521,956
Total assets[7]	663,828	661,894	664,485	653,283	670,760
Note payable bank-financial service operations	24,142	32,197	52,606	32,133	46,343
Notes payable banks-other	6,160	5,853	5,801	5,801	10,766
Total shareholders equity[4]	$ 326,763	$ 303,491	$ 273,350	$ 280,028	$ 275,146

(1) Includes the following impact of charges related to the repair of certain homes in Florida where certain of our subcontractors installed defective imported drywall: (i) $12.2 million for the year ended December 31, 2009; and (ii) $0.6 million for the year ended December 31, 2010. The year ended December 31, 2010 also includes a $2.4 million recovery of such charges as a result of a settlement with a provider of certain of the defective imported drywall.

(2) Includes the impact of write-off of land deposits and pre-acquisition costs of: (i) $1.7 million, $0.6 million and $1.0 million for the years ended December 31, 2009, 2010 and 2011, respectively; and (ii) $0.3 million for the six months ended June 30, 2011 and 2012.

(3) Includes the sum of the impact described in notes (1) and (2) above and the impairment of inventory and investment in unconsolidated LLCs for all periods presented.

(4) Includes the impact of net valuation allowances on our deferred tax assets of: (i) $8.2 million, $10.8 million and $12.9 million for the years ended December 31, 2009, 2010 and 2011, respectively; and (ii) $10.3 million and $0.1 million for the six months ended June 30, 2011 and 2012, respectively.

(5) The charges in notes (1) and (2) above, along with the impairment of inventory and investment in unconsolidated LLCs:

increased loss from continuing operations by $42.9 million, $7.1 million and $14.2 million for the years ended December 31, 2009, 2010 and 2011, respectively; and

increased loss from continuing operations by $10.3 million and $0.5 million for the six months ended June 30, 2011 and 2012, respectively.

(6) At December 31, 2009, 2010 and 2011 and June 30, 2011 and June 30, 2012, restricted cash primarily consisted of homebuilding cash the Company had designated as collateral in accordance with the secured credit agreements to which it is a party for the issuance of letters of credit outside of the Credit Facility (the Letter of Credit Facilities). At December 31, 2011, restricted cash also included $25.0 million the Company was required to pledge as security to the lenders under the Credit Facility. Restricted cash also included cash held in escrow of $3.1 million at both December 31, 2009 and 2010, and less than $0.1 million at December 31, 2011, June 30, 2011 and June 30, 2012.

(7) Total assets at December 31, 2009, 2010 and 2011 include gross deferred tax assets of $117.1 million, $127.9 million and $140.8 million, respectively, that were fully reserved. Total assets at June 30, 2011 and 2012 include gross deferred tax assets of $138.2 million and $140.7 million, respectively, that were fully reserved.

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Summary homebuilding operations data

The following table sets forth summary information by region regarding our homebuilding activities for the periods indicated. Results for the six months ended June 30, 2012 are not necessarily indicative of results for the full year or for future periods. The following data have been derived from our unaudited financial records for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
(Dollars in thousands)	**2009**	**2010**	**2011**	**2011**	**2012**
Midwest Region:					
Homes delivered	1,282	1,296	991	487	488
New contracts, net	1,334	1,215	1,042	595	639
Backlog at end of period	417	336	387	444	538
Aggregate sales value of homes in backlog	$ 100,623	$ 83,061	$ 100,096	$ 110,215	$ 141,687
Southern Region:					
Homes delivered	428	429	571	233	320
New contracts, net	406	461	607	302	483
Backlog at end of period	55	87	164	197	361
Aggregate sales value of homes in backlog	$ 12,088	$ 19,006	$ 39,540	$ 44,354	$ 87,316
Mid-Atlantic Region:					
Homes delivered	699	709	716	309	324
New contracts, net	753	640	732	392	468
Backlog at end of period	178	109	125	192	269
Aggregate sales value of homes in backlog	$ 63,988	$ 33,179	$ 41,019	$ 59,450	$ 91,385
Total:					
Homes delivered	2,409	2,434	2,278	1,029	1,132
New contracts, net	2,493	2,316	2,381	1,289	1,590
Backlog at end of period	650	532	676	833	1,168
Aggregate sales value of homes in backlog	$ 176,698	$ 135,246	$ 180,655	$ 214,019	$ 320,388

Risk factors

An investment in the notes and our common shares involves material risks. You should carefully consider the risks set forth below, as well as the other information contained in this prospectus supplement and the accompanying prospectus, before deciding to invest in the notes. The occurrence of any of the following risks could materially and adversely affect our business, financial condition, prospects, results of operations and cash flows. In such case, the market or trading price of the notes and our common shares could decline, and you could lose all or part of your investment. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, prospects, financial condition, results of operations and cash flows.

Risks related to our business

Homebuilding market and economic risks

The homebuilding industry has experienced a prolonged and severe downturn, and the volume of new home sales in most markets remains at historically depressed levels despite recent signs of a modest recovery in housing, and such conditions could adversely affect our business and results of operations.

Since 2006, many of our markets and the U.S. homebuilding industry as a whole have experienced a significant and sustained decrease in demand for new homes and an oversupply of new and existing homes available for sale. These conditions have shown modest signs of improvement in recent months, but demand for new homes remains at historically low levels. In many markets, a rapid increase in new and existing home prices in the years leading up to and including 2006 reduced housing affordability relative to consumer incomes and tempered buyer demand. Also since the downturn began, investors and speculators reduced their purchasing activity and instead accelerated their efforts to sell residential property they had previously acquired. These trends, which were more pronounced in markets that had experienced the greatest levels of price appreciation, resulted in fewer overall home sales, greater cancellations of home purchase agreements by buyers, higher inventories of unsold homes and the increased use by homebuilders, speculators, investors and others of discounts, incentives, price concessions and other marketing efforts to close home sales in the years following 2006. These negative supply and demand trends were exacerbated further beginning in 2008 by increasing sales of lender-owned homes, a severe downturn in general economic conditions, increased unemployment, turmoil in credit and consumer lending markets and tighter mortgage lending standards.

Reflecting the impact of this difficult environment, we, like many other homebuilders, experienced declines in new contracts, decreases in the average selling price of new homes sold and reduced margins through 2010 relative to years prior to the housing market downturn, and we generated operating losses through 2011. Despite recent signs of a modest recovery in housing conditions, we can provide no assurances that the homebuilding market or our business will improve substantially in the near future. If economic conditions and employment remain weak and mortgage foreclosures, delinquencies and short sales remain at heightened levels, there would likely be a corresponding adverse effect on our business and our results of operations, including, but not limited to, our number of homes delivered and the amount of revenues we generate.

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Further tightening of residential consumer mortgage lending or mortgage financing requirements or further volatility in credit and consumer lending markets could adversely affect the availability of residential consumer mortgage loans for some potential purchasers of our homes and thereby reduce our sales.

Since 2008, the residential consumer mortgage lending and mortgage finance industries have experienced significant instability due to, among other things, relatively high rates of delinquencies, defaults and foreclosures on residential consumer mortgage loans and a resulting decline in their market value and the market value of securities backed by such loans. The delinquencies, defaults and foreclosures have been driven in part by persistent poor economic and employment conditions, which have negatively affected borrowers incomes, and by a decline in the values of many existing homes in various markets below the principal balance of the residential consumer mortgage loans secured by such homes. A number of providers, purchasers and insurers of residential consumer mortgage loans and residential consumer mortgage-backed securities have gone out of business or exited the market, and lenders, investors, regulators and others have questioned the oversight and the adequacy of lending standards for several residential consumer mortgage loan programs made available to borrowers in recent years, including programs offered or supported by the Federal Housing Administration (the FHA), the U.S. Department of Veterans Affairs (the VA) and the federal government sponsored enterprises, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). Compared to periods prior to 2008, this has led to reduced investor demand for residential consumer mortgage loans and residential consumer mortgage-backed securities, tightened credit requirements, reduced liquidity and availability of residential consumer mortgage loan products (particularly subprime and nonconforming loans), and increased down payment requirements and credit risk premiums related to home purchases. It has also led to enhanced regulatory and legislative actions, and government programs focused on modifying the principal balances, interest rates and/or payment terms of existing residential consumer mortgage loans and preventing residential consumer mortgage loan foreclosures, which have achieved somewhat mixed results.

The reduction in the availability of residential consumer mortgage loan products and providers and tighter residential consumer mortgage loan qualifications and down payment requirements have made it more difficult for some categories of borrowers to finance the purchase of our homes or the purchase of existing homes from potential move-up buyers who wish to purchase one of our homes. Overall, these factors have slowed the general improvement in the housing market, and although they have shown recent signs of stabilizing, they have resulted in reduced demand for our homes and for residential consumer mortgage loans originated through our M/I Financial subsidiary. These reductions in demand have had a materially adverse effect on our business and results of operations which may continue.

Potentially exacerbating the foregoing trends, in 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law and established several new standards and requirements (including risk retention obligations) relating to the origination, securitizing and servicing of, and consumer disclosures for, residential consumer mortgage loans. In addition, United States and international banking regulators have proposed or enacted higher capital standards and requirements for financial institutions. These standards and requirements, as and when implemented, are expected to further reduce the availability of loans to borrowers and/or increase the costs to borrowers to obtain such loans.

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As a result of the volatility and uncertainty in the credit markets and in the residential consumer mortgage lending and mortgage finance industries since 2008, the federal government has taken on a significant role in supporting residential consumer mortgage lending through its conservatorship of Fannie Mae and Freddie Mac, both of which purchase or insure residential consumer mortgage loans and residential consumer mortgage-backed securities, and its insurance of residential consumer mortgage loans through the FHA and the VA. In the last few years, the FHA, Fannie Mae and Freddie Mac have purchased or insured substantially all new residential consumer mortgage loans originated by lenders and other mortgage banking services providers. FHA-backing of residential consumer mortgage loans has been particularly important to the residential consumer mortgage finance industry and to our business. In the first six months of 2012, approximately 46% of our homebuyers (compared to approximately 56% in the first six months of 2011) that chose to finance with our M/I Financial subsidiary purchased a home using an FHA- or VA-backed loan. Federal regulators and legislators are discussing steps that may significantly reduce the ability or authority of the FHA, Fannie Mae and Freddie Mac to purchase or insure residential consumer mortgage loans. In addition, due to growing federal budget deficits, the U.S. Treasury may not be able to continue supporting the residential consumer mortgage-related activities of Fannie Mae, Freddie Mac, the FHA and the VA at present levels. The availability and affordability of residential consumer mortgage loans, including interest rates for such loans, could be adversely affected by a scaling back or termination of the federal government s mortgage-related programs or policies.

Since 2010, investors in residential consumer mortgage-backed securities, as well as the FHA, Fannie Mae and Freddie Mac, have increasingly demanded that lenders and other mortgage banking services providers, brokers and other institutions, or their agents, repurchase the loans underlying the securities based on alleged breaches of underwriting standards or of representations and warranties made in connection with transferring the loans. We expect these put-back demands will continue and, to the extent successful, could cause lenders and other mortgage banking services providers and brokers to further curtail their residential consumer mortgage loan origination activities due to reduced liquidity. Concerns about the soundness of the residential consumer mortgage lending and mortgage finance industries have also been heightened due to allegedly widespread errors by lenders and other mortgage banking services providers or brokers, or their agents, in the processing of residential consumer mortgage loan foreclosures and sales of foreclosed homes, leading to voluntary or involuntary delays and higher costs to finalize foreclosures and foreclosed home sales, and greater court and regulatory scrutiny. In addition to having a potential negative impact on the origination of new residential consumer mortgage loans, these disruptions in residential consumer mortgage loan foreclosures and lender-owned home sales can make it more difficult for us to accurately assess the supply of and prevailing prices for unsold homes and/or the overall health of particular housing markets.

Many of our homebuyers obtain financing for their home purchases from our M/I Financial subsidiary. If, due to higher costs, reduced liquidity, heightened risk retention obligations and/or new operating restrictions or regulatory reforms related to or arising from compliance with the Dodd-Frank Act, limitations or restrictions in the availability of government-backed financing, residential consumer mortgage loan put-back demands or internal or external reviews of its residential consumer mortgage loan foreclosure processes, or other factors or business decisions, M/I Financial is limited or unable to make loan products available to our homebuyers, our home sales and our homebuilding and financial services results of operations may be adversely affected. We can provide no assurance that the trend of tighter residential consumer mortgage lending standards will slow or reverse in the foreseeable future.

Our strategies in responding to the adverse conditions in the homebuilding industry over the past several years and the implementation of additional strategies may not be successful, despite signs of modest recovery in the housing industry in 2012.

In an effort to generate higher revenues and restore and maintain our homebuilding operations profitability, beginning in late 2008 and continuing through the second quarter of 2012, we have (1) invested in new communities in our markets with higher margins, (2) rolled out new, more flexible product designs, including our Eco Series product line, (3) continued to take steps to reduce our selling, general and administrative expenses and (4) redeployed our capital into housing markets with perceived higher future growth prospects, such as our entry into the Houston and San Antonio, Texas markets.

We believe these steps helped us increase our homes delivered and new contracts and margins in the first six months of 2012 compared to the same period in 2011, as well as increase the number of homes in backlog, the average sales price of the homes in backlog and the overall sales value of our backlog. However, there can be no assurance that these trends will continue, that we will successfully increase our average active community count and inventory base with desirable land assets at a reasonable cost, or that we will maintain profitability in the future.

In addition, notwithstanding our sales strategies, we have experienced volatility in our new contracts throughout the housing downturn, and continuing during 2012. The relatively tight consumer mortgage lending environment and the inability of some homebuyers to sell their existing homes have also led to lower demand for new homes. It is uncertain how long and to what degree these factors, and the volatility in new contracts we have experienced, will continue. To the extent that these factors continue, and to the extent that they limit our average selling prices, we expect that they may have a negative effect on our business and our results of operations.

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 homes being sold to homeowners. There are significant risks inherent in controlling or purchasing land, especially as the demand for new homes fluctuates. 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. Additionally, if conditions in the homebuilding industry worsen in the future, we may be required to evaluate our 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.

If we are unable to successfully compete in the highly competitive homebuilding industry, our financial results and growth may suffer.

The homebuilding industry is highly competitive. We compete for sales in each of our markets with national, regional and local developers and homebuilders, foreclosures sales, existing home

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resales and, to a lesser extent, condominiums and available rental housing. Some of our competitors have significantly greater financial resources or lower costs than we do. Competition among both small and large residential homebuilders is based on a number of interrelated factors, including location, reputation, amenities, design, quality and price. Competition is expected to continue and may become more intense, and there may be new entrants in the markets in which we currently operate and in markets we may enter in the future. If we are unable to successfully compete, our financial results and growth could suffer.

If economic conditions worsen or the current challenging economic conditions continue for an extended period of time, this could have continued negative consequences on our operations, financial position and cash flows.

The homebuilding industry is cyclical and is significantly affected by changes in industry conditions, as well as by general and local economic conditions, such as:

- employment levels and job and personal income growth;
- availability and pricing of financing for homebuyers;
- short and long-term interest rates;
- overall consumer confidence and the confidence of potential homebuyers in particular;
- demographic trends;
- housing demand from population growth, household formation and other demographic changes, among other factors;
- U.S. and global financial system and credit market stability;
- private party and governmental residential consumer mortgage loan programs, and federal and state regulation of lending and appraisal practices;
- federal and state personal income tax rates and provisions, including provisions for the deduction of residential consumer mortgage loan interest payments and other expenses;
- the supply of and prices for available new or existing homes (including lender-owned homes acquired through foreclosures and short sales) and other housing alternatives, such as apartments and other residential rental property;
- homebuyer interest in our current or new product designs and community locations, and general consumer interest in purchasing a home compared to choosing other housing alternatives; and
- real estate taxes.

Adverse changes in economic conditions may affect our business nationally or may be more prevalent or concentrated in particular regions or localities in which we operate. In recent years, unfavorable changes in many economic factors negatively affected all of our served markets, and the widespread nature of the housing downturn may result in an extended recovery period. Continued weakness in the economy, employment levels and consumer confidence would likely exacerbate the unfavorable trends the housing market generally experienced beginning in the latter half of 2006.

Potential difficulties in the economy can cause demand and prices for our homes to fall or cause us to take longer and incur more costs to build our homes. We may not be able to recover these

increased costs by raising prices because of market conditions and because the price of each home we sell is usually set several months before the home is delivered, as our customers typically sign their home purchase contracts before construction begins. The potential difficulties could also lead some homebuyers to cancel or refuse to honor their home purchase contracts altogether. Reflecting the difficult economic conditions in our served markets over the past several years, we have experienced volatility in our new contracts in recent years, and despite recent signs of a modest improvement in new home demand in many of our markets, we may experience similar or increased volatility in the future.

Interest rate increases could lower demand for our homes.

Nearly all of our customers finance the purchase of their homes. Before the housing downturn began, low interest rates and the increased availability of specialized residential consumer mortgage loan products, including products requiring no or low down payments, and interest-only and adjustable-rate residential consumer mortgage loans, made purchasing a home more affordable for a number of customers and more available to customers with lower credit scores. Increases in interest rates or decreases in the availability of residential consumer mortgage loan financing or of certain residential consumer mortgage loan products or programs may lead to fewer residential consumer mortgage loans being provided, higher down payment requirements or borrower costs, or a combination of the foregoing, and, as a result, reduce demand for our homes and increase our home purchase contract cancellation rates.

Tax law changes could make home ownership more expensive or less attractive.

Under current U.S. tax law and policy, significant expenses of owning a home, including residential consumer mortgage loan interest costs and real estate taxes, generally are deductible expenses for the purpose of calculating an individual s federal, and in some cases state, taxable income, subject to various limitations. If the federal government or a state government changes income tax laws, as some policy makers and a presidential commission have proposed, by eliminating or substantially reducing these income tax benefits, the after-tax cost of owning a home could increase substantially. This could adversely impact demand for and/or sales prices of new homes.

Inflation can adversely affect us, particularly in a period of declining home sale prices.

Inflation can have a long-term impact on us because, if the costs of land, materials and labor increase, this would require us to attempt to increase the sale prices of homes in order to maintain satisfactory margins. Although an excess of supply over demand for new homes, such as the environment in which we are currently operating, generally requires that we reduce prices, rather than increase them, it does not necessarily result in reductions, or prevent increases, in the costs of materials, labor and land development costs. Under those circumstances, the effect of cost increases is to reduce the margins on the homes we sell. Reduced margins in such cases make it more difficult for us to recover the full cost of previously purchased land.

Our limited geographic diversification could adversely affect us if the homebuilding industry in our markets declines.

We have operations in Ohio, Indiana, Illinois, Maryland, Virginia, North Carolina, Florida and Texas. Our limited geographic diversification could adversely impact us if the homebuilding business in our current markets should continue to decline, since there may not be a balancing opportunity in a stronger market in other geographic regions.

Operational risks

We may not be successful in integrating acquisitions or implementing our growth strategies.

In April 2011, we acquired the assets of TriStone Homes, a privately-held homebuilder based in San Antonio, Texas. In April 2012, we expanded our Houston, Texas operations by acquiring the assets of Triumph Homes, a privately-held homebuilder based in Houston, Texas. We may in the future consider growth or expansion of our operations in our current markets or in other areas of the country, whether through strategic acquisitions of homebuilding companies or otherwise. The magnitude, timing and nature of any future expansion will depend on a number of factors, including our ability to identify suitable additional markets and/or acquisition candidates, the negotiation of acceptable terms, our financial capabilities and general economic and business conditions. Our expansion into new or existing markets, whether through acquisition or otherwise, could have a material adverse effect on our liquidity and/or profitability, and any future acquisitions could result in the dilution of existing shareholders if we issue our common shares as consideration. Acquisitions also involve numerous risks, including difficulties in the assimilation of the acquired company s operations, the incurrence of unanticipated liabilities or expenses, the risk of impairing inventory and other assets related to the acquisition, the diversion of management s attention and resources from other business concerns, risks associated with entering markets in which we have limited or no direct experience and the potential loss of key employees of the acquired company.

If we are unable 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 on terms that are acceptable to us may be impacted by factors beyond our control. In the event we are unable to obtain suitable financing, our future liquidity may be impacted, which could have a material adverse effect on our financial condition or results of operations and require us to use cash or other sources of capital to fund our business operations.

The mortgage warehousing agreement of our financial services segment will expire in March 2013.

M/I Financial is party to a $70 million secured mortgage warehousing agreement dated April 18, 2011, as amended on March 23, 2012, among M/I Financial, the lenders party thereto and Comerica Bank, as administrative agent (the MIF Mortgage Warehousing Agreement). M/I Financial uses the MIF Mortgage Warehousing Agreement to finance its lending activities until the loans are delivered to third party buyers. The MIF Mortgage Warehousing Agreement will expire on March 30, 2013. If we are unable to renew or replace the MIF Mortgage Warehousing Agreement when it matures, the activities of our financial services segment could be seriously impeded.

Reduced numbers of home sales may 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 enter into contracts to purchase land and make deposits that may be forfeited if we do not fulfill our purchase obligation within specified periods.

We could be adversely affected by a negative change in our credit rating.

Our ability to access capital on favorable terms is a key factor in growing our business and operations in a profitable manner. Our debt and the company have credit ratings issued by Fitch, Moody s and Standard & Poor s. Downgrades of our credit rating by one or more of these credit agencies may make it more difficult and costly for us to access external financing.

Errors in estimates and judgments that affect decisions about how we operate and on our reported amounts of assets, liabilities, revenues and expenses could have a material impact on us.

In the ordinary course of business, we must make estimates and judgments that affect decisions about how we operate and the reported amounts of assets, liabilities, revenues and expenses. These estimates include, but are not limited to, those related to: recognition of income and expenses; impairment of assets; estimates of future improvement and amenity costs; estimates of sales levels and sales prices; capitalization of costs to inventory; provisions for litigation, insurance and warranty costs; cost of complying with government regulations; and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. On an ongoing basis, we evaluate and adjust our estimates based upon the information then currently available. Actual results may differ from these estimates, assumptions and conditions.

If our ability to resell mortgages to investors is impaired, we may be required to broker loans.

We sell substantially all of the loans we originate within a short period of time in the secondary mortgage market on a servicing released, non-recourse basis, although we remain liable for certain limited representations and warranties related to loan sales. If we are unable to sell to viable purchasers in the marketplace, our ability to originate and sell mortgage loans at competitive prices could be limited which would negatively affect our operations and our profitability. Additionally, if there is a significant decline in the secondary mortgage market, our ability to sell mortgages could be adversely impacted and we would be required to make arrangements with banks or other financial institutions to fund our buyers closings. If we became unable to sell loans into the secondary mortgage market or directly to Fannie Mae and Freddie Mac, we would have to modify our origination model, which, among other things, could significantly reduce our ability to sell homes.

Mortgage investors could seek to have us buy back loans or compensate them for losses incurred on mortgages we have sold based on claims that we breached our limited representations or warranties.

M/I Financial originates mortgages, primarily for our homebuilding customers. Substantially all of the mortgage loans originated are sold within a short period of time in the secondary mortgage market on a servicing released, nonrecourse basis, although we remain liable for certain limited representations, such as fraud, and warranties related to loan sales. Accordingly, mortgage investors have in the past and could in the future seek to have us buy back loans or compensate them for losses incurred on mortgages we have sold based on claims that we breached our limited representations or warranties. We believe there continues to be an industry-wide issue

with the number of purchaser claims in which purchasers purport to have found inaccuracies related to sellers representations and warranties in particular loan sale agreements. In 2011 and to date in 2012, we have not repurchased any loans and we have established reserves for potential losses. However, there can be no assurance that we will not have significant liabilities in respect of such claims in the future, which could exceed our reserves, or that the impact of such claims on our results of operations will not be material.

We compete on several levels with homebuilders that may have greater sales and financial resources than us, which could hurt our future earnings.

We compete not only for homebuyers but also for desirable properties, financing, raw materials and skilled labor, often within larger subdivisions designed, planned and developed by other homebuilders. Our competitors include other local, regional and national homebuilders, some of which have greater sales and financial resources than us. The competitive conditions in the homebuilding industry, together with current market conditions, have resulted in and could continue to result in:

- difficulty in acquiring suitable land at acceptable prices;
- lower selling prices;
- increased selling incentives;
- lower sales;
- lower profit margins;
- impairments in the value of inventory; and
- delays in construction.

If we are unable to successfully compete within the homebuilding industry, this could lead to increased costs and/or lower profit margins.

We may not be able to benefit from net operating loss carryforwards.

We suffered losses in each fiscal year from 2007 through 2011 for tax (as well as for financial statement) purposes. We were able to carryback 100% of our tax loss in the 2007 fiscal year to recover tax we had paid with regard to a prior year. However, we would not have been able to carryback 100% of our 2008 fiscal year tax loss without legislation enacted in November 2009 that extended the net operating loss (NOL) carryback period to five years. We were unable to carryback our tax losses for the fiscal years from 2009 through 2011. We will not receive any tax benefits with regard to tax losses we could not carryback unless we have taxable income in the 20-year NOL carryforward period. In our financial statements, we have fully reserved against all our deferred tax assets due to the possibility that we may not have taxable income that will enable us to benefit from our tax losses for the fiscal years from 2009 through 2011. However, those reserves will be reversed when it becomes more likely than not that we will have sufficient future taxable income to take advantage of the deferred tax assets.

Our net operating loss carryforwards could be substantially limited if we experience an ownership change as defined in Section 382 of the Internal Revenue Code.

Based on recent impairments and our current financial performance, we generated NOL carryforwards for the years ending December 31, 2009, 2010 and 2011, and it is possible that we will generate net NOL carryforwards in future years. Under the Code, we may use these NOL carryforwards to offset future earnings and reduce our federal income tax liability. As a result, we believe these NOL carryforwards could be a substantial asset for us.

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Section 382 of the Code contains rules that limit the ability of a company that undergoes an ownership change, which is generally defined as any change in ownership of more than 50% of its common stock over a three-year period, to utilize its NOL carryforwards and certain built-in losses recognized in years after the ownership change. These rules generally operate by focusing on ownership changes among shareholders owning, directly or indirectly, 5% or more of the company s common stock (including changes involving a shareholder becoming a 5% shareholder) or any change in ownership arising from a new issuance of stock by the company.

In March 2009, we amended our code of regulations to impose certain restrictions on the transfer of our common shares to preserve the tax treatment of our NOLs and built-in losses (the NOL Protective Amendment). The transfer restrictions imposed by the NOL Protective Amendment generally restrict (unless otherwise approved by our board of directors) any direct or indirect transfer if the effect would be to: (1) increase the direct or indirect ownership of our shares by any person or group of persons from less than 5% to 5% or more of our common shares; or (2) increase the percentage of our common shares owned directly or indirectly by a person or group of persons owning or deemed to own 5% or more of our common shares. Although the NOL Protective Amendment is intended to reduce the likelihood of an ownership change that could adversely affect us, we cannot provide assurance that the restrictions on transferability in the NOL Protective Amendment will prevent all transfers that could result in such an ownership change. There also can be no assurance that the transfer restrictions in the NOL Protective Amendment will be enforceable against all of our shareholders absent a court determination confirming such enforceability. The transfer restrictions may be subject to challenge on legal or equitable grounds.

The acquisition of notes in this offering, and common shares upon conversion of the notes, is not subject to the NOL Protective Amendment. The NOL Protective Amendment may, however, limit the ability of a person who acquires common shares upon conversion of the notes to dispose of such common shares because it reduces the class of potential acquirers of such common shares. See the risk factor below captioned The NOL Protective Amendment may limit your ability to dispose of the common shares and adversely impact the value of the notes and common shares for more information.

If we undergo an ownership change for purposes of Section 382 of the Code as a result of future transactions involving the notes and our common shares, including transactions initiated by the Company, and including transactions involving a shareholder becoming an owner of 5% or more of our common shares and purchases and sales of our common shares by existing 5% shareholders, our ability to use our NOL carryforwards and recognize certain built-in losses could be limited by Section 382 of the Code. Depending on the resulting limitation, a significant portion of our NOL carryforwards could expire before we would be able to use them. Our inability to utilize our NOL carryforwards could have a material adverse affect on our financial condition and results of operations.

Our results of operations, financial condition and cash flows could be adversely affected if pending or future legal claims against us are not resolved in our favor.

On March 5, 2009, a resident of Florida and an owner of one of our homes filed a complaint in the United States District Court for the Southern District of Ohio, on behalf of himself and other similarly situated owners and residents of homes in the United States or alternatively in Florida, against the Company and certain other identified and unidentified parties (the Initial Action).

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The plaintiff alleged that the Company built his home with defective drywall, manufactured and supplied by certain of the defendants, that contains sulfur or other organic compounds capable of harming the health of individuals and damaging property. The plaintiff alleged physical and economic damages and sought legal and equitable relief, medical monitoring and attorney s fees. The Company filed a responsive pleading on or about April 30, 2009. The Initial Action was consolidated with other similar actions not involving the Company and transferred to the Eastern District of Louisiana pursuant to an order from the United States Judicial Panel on Multidistrict Litigation for coordinated pre-trial proceedings (collectively, the In Re: Chinese Manufactured Drywall Product Liability Litigation). In connection with the administration of the In Re: Chinese Manufactured Drywall Product Liability Litigation, the same homeowner and nine other homeowners were named as plaintiffs in omnibus class action complaints filed in and after December 2009 against certain identified manufacturers of drywall and others (including the Company), including one homeowner named as a plaintiff in an omnibus class action complaint filed in March 2010 against various unidentified manufacturers of drywall and others (including the Company) (collectively, the MDL Omnibus Actions). As they relate to the Company, the Initial Action and the MDL Omnibus Actions address substantially the same claims and seek substantially the same relief. The Company has entered into agreements with several of the homeowners named as plaintiffs pursuant to which the Company agreed to make repairs to their homes consistent with repairs made to the homes of other homeowners. As a result of these agreements, the Initial Action has been resolved and dismissed, and seven of the nine other homeowners named as plaintiffs in omnibus class action complaints have dismissed their claims against the Company. One of the two remaining plaintiffs has also filed a complaint in Florida state court asserting essentially the same claims and seeking substantially the same relief as asserted in the MDL Omnibus Action. The MDL Court recently preliminarily approved a global class action settlement, which is intended to resolve all Chinese drywall-related claims of and against those who participate in the settlement. A final fairness and approval hearing is currently scheduled for November 2012. The Company intends to vigorously defend against the claims of any plaintiffs who are not bound by or elect to opt out of the class action settlement. Given the inherent uncertainties in this litigation, there can be no assurance that the ultimate resolution of the MDL Omnibus Actions, or any other actions or claims relating to defective drywall that may be asserted in the future, will not have a material adverse effect on our results of operations, financial condition, and cash flows. See the risk factor below captioned Homebuilding is subject to warranty and liability claims in the ordinary course of business which may lead to additional reserves or expenses for more information.

The Company and certain of its subsidiaries have also been named as defendants in other claims, complaints and legal actions which are routine and incidental to our business. While management currently believes that the ultimate resolution of these other matters, individually and in the aggregate, will not have a material adverse effect on our results of operations, financial condition or cash flows, such matters are subject to inherent uncertainties. We have recorded a liability to provide for the anticipated costs, including legal defense costs, associated with the resolution of these other matters. However, it is possible that the costs to resolve these other matters could differ from the recorded estimates and, therefore, have a material adverse effect on our results of operations, financial condition and cash flows for the periods in which the matters are resolved. Similarly, if additional claims are filed against us in the future, the negative outcome of one or more of such matters could have a material adverse effect on our results of operations, financial condition and cash flows.

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The terms of our indebtedness may restrict our ability to operate and, if our financial performance declines, we may be unable to maintain compliance with the covenants in the documents governing our indebtedness.

The Credit Facility and the indenture governing the 2018 Senior Notes impose restrictions on our operations and activities. These restrictions, and/or our failure to comply with the terms of our indebtedness, could have a material adverse effect on our results of operations, financial condition and ability to operate our business.

The Credit Facility requires compliance with certain financial covenants, including a minimum consolidated tangible net worth requirement and a maximum permitted leverage ratio. Currently, we believe the most restrictive covenant of the Credit Facility is to maintain a minimum consolidated tangible net worth of at least $193.3 million. Failure to comply with this covenant or any of the other restrictions or covenants of the Credit Facility, whether because of a decline in our operating performance or otherwise, could result in a default under the Credit Facility. If a default occurs, the affected lenders could elect to declare the indebtedness, together with accrued interest and other fees, to be immediately due and payable, which in turn could cause a default under the documents governing any of our other indebtedness that is then outstanding if we are not able to repay such indebtedness from other sources. If this happens and we are unable to obtain waivers from the required lenders, the lenders could exercise their rights under such documents, including forcing us into bankruptcy or liquidation. Also, while the aggregate commitment of the Credit Facility is $140 million (with the ability to increase the amount of the Credit Facility up to $175 million in aggregate, contingent on obtaining additional commitments from lenders), we can only borrow up to the amount we have secured by real estate and/or cash in accordance with the provisions of the Credit Facility. This secured borrowing base limitation could preclude us from incurring additional borrowings, which could impair our ability to maintain sufficient working capital. In such a situation, there can be no assurance that we would be able to obtain alternative financing.

The indenture governing the 2018 Senior Notes also contains covenants that restrict our ability to, among other things:

- pay dividends on, and repurchase, our common shares and our 9.75% Series A Preferred Shares;
- incur additional indebtedness or liens;
- make investments;
- consolidate or merge with or into other companies; or
- liquidate or sell all or substantially all of our assets.

These restrictions may limit our ability to operate our business and may prohibit or limit our ability to enhance our operations or take advantage of potential business opportunities as they arise. Failure to comply with these covenants or any of the other restrictions or covenants contained in the indenture governing the 2018 Senior Notes could result in a default under such document, in which case holders of the 2018 Senior Notes may be entitled to cause the sums evidenced by such notes to become due immediately. This acceleration of our obligations under the 2018 Senior Notes could force us into bankruptcy or liquidation and we may be unable to repay those amounts without selling substantial assets, which might be at prices well below the long-term fair values and carrying values of the assets. Our ability to comply with the foregoing restrictions and covenants may be affected by events beyond our control, including prevailing economic, financial and industry conditions.

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In addition, while the indenture governing the notes does not contain any financial or operating covenants or restrictions on the payment of dividends, the incurrence of indebtedness or the repurchase or issuance of securities by us or any of our subsidiaries, the indenture imposes certain requirements on us, such as the requirement to offer to repurchase the notes upon a fundamental change, as defined in the indenture. Failure to comply with the requirements contained in the indenture governing the notes could result in a default under such document, in which case holders of the notes may be entitled to cause the sums evidenced by such notes to become due immediately. This acceleration of our obligations under the notes could have the same effect as an acceleration of the 2018 Senior Notes described above.

In the ordinary course of business, we are required to obtain performance bonds, the unavailability of which could adversely affect our results of operations and/or cash flows.

As is customary in the homebuilding industry, we are often required to provide surety bonds to secure our performance under construction contracts, development agreements and other arrangements. Our ability to obtain surety bonds primarily depends upon our credit rating, capitalization, working capital, past performance, management expertise and certain external factors, including the overall capacity of the surety market and the underwriting practices of surety bond issuers. The ability to obtain surety bonds also can be impacted by the willingness of insurance companies to issue performance bonds. If we were unable to obtain surety bonds when required, our results of operations and/or cash flows could be adversely impacted.

Changes in accounting principles, interpretations and practices may affect our reported revenues, earnings and results of operations.

Generally accepted accounting principles and the accompanying standards, implementation guidelines, interpretations and practices for certain aspects of our business are complex and may involve subjective judgments, estimates and assumptions, such as revenue recognition, inventory valuations and income taxes. Changes in interpretations could significantly affect our reported revenues, earnings and operating results, and could add significant volatility to those measures without a comparable underlying change in cash flows from operations. The imposition of new accounting standards (*e.g.*, International Financial Reporting Standards) could result in increased expenses as we may be required to modify our current practices and systems in order to comply with such standards.

We can be injured by failures of persons who act on our behalf to comply with applicable regulations and guidelines.

There are instances in which subcontractors or others through whom we do business engage in practices that do not comply with applicable regulations or guidelines. When we learn of practices relating to homes we build or financing we provide that do not comply with applicable laws, rules or regulations, we actively move to stop the non-complying practices as soon as possible. However, regardless of the steps we take after we learn of practices that do not comply with applicable laws, rules or regulations, we can in some instances be subject to fines or other governmental penalties, and our reputation can be injured, due to the practices having taken place.

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We experience fluctuations and variability in our operating results on a quarterly basis and, as a result, our historical performance may not be a meaningful indicator of future results.

We historically have experienced, and expect to continue to experience, variability in home sales and results of operations on a quarterly basis. As a result of such variability, our historical performance may not be a meaningful indicator of future results. Factors that contribute to this variability include:

- the timing of home deliveries and land sales;
- delays in construction schedules due to strikes, adverse weather, acts of God, reduced subcontractor availability and governmental restrictions;
- our ability to acquire additional land or options for additional land on acceptable terms;
- conditions of the real estate market in areas where we operate and of the general economy;
- the cyclical nature of the homebuilding industry, changes in prevailing interest rates and the availability of mortgage financing; and
- costs and availability of materials and labor.

Historically, a significant percentage of our home purchase contracts are entered into in the spring and summer months, and we deliver a corresponding significant percentage of our homes in the fall and winter months. Construction of our homes typically requires approximately four to six months and weather delays that often occur in late winter and early spring may extend this period. As a result of these combined factors, we historically have experienced uneven quarterly results, with lower revenues and operating income generally during the first and second quarters of the year.

Homebuilding is subject to warranty and liability claims in the ordinary course of business which may lead to additional reserves or expenses.

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. As a result, in some cases, we have reduced our customary insurance requirements. We have responded to the 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.

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There has been significant publicity about homes constructed with defective drywall. Since the discovery of defective drywall, we implemented procedures in every division to investigate homes for signs of the presence of defective drywall. As of June 30, 2012, the Company has identified 93 homes that have been confirmed as having defective drywall installed by our subcontractors. All of these homes are located in Florida. As of June 30, 2012, we have completed the repair of 88 homes and are in the process of repairing two homes. The remaining three homeowners have not granted us authority to repair their homes. In consideration for performing these repairs, we received from the homeowner a full release of claims (excluding, in nearly all cases, personal injury claims) arising from the defective drywall. Since 2009, the Company has accrued approximately $13.0 million for the repair of these 93 homes. The remaining balance in this accrual was $0.8 million as of June 30, 2012. Based on our investigation to date and our evaluation of the defective drywall issue, we believe our existing accrual is sufficient to cover costs and claims associated with the repair of these homes. However, if and to the extent the scope of the defective drywall issue proves to be significantly greater than we currently anticipate, or in the event defective drywall is, through credible evidence, linked to significant adverse health effects of the occupants of the homes containing such defective drywall, or if it is determined that our accrual for costs of repair attributable to defective drywall together with recoveries from our insurance carrier and from other responsible parties and their insurance carriers are not sufficient to cover claims, losses or other issues related to defective drywall, then it is possible that we could incur additional costs or liabilities related to this issue that may have a material adverse effect on our results of operations, financial position and cash flows. See the risk factor above captioned Our results of operations, financial condition and cash flows could be adversely affected if pending or future legal claims against us are not resolved in our favor for more information.

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, Washington, D.C. and Texas, are situated in geographical areas that are regularly impacted by severe storms, including hurricanes, flooding and tornadoes. 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 are subject to extensive government regulations, which could restrict our homebuilding or financial services business.

The homebuilding industry is subject to numerous and 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 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 consumer protection matters and the protection of health and the environment. These statutes, ordinances, rules and regulations, and any failure to comply therewith, could give rise to additional liabilities or expenditures and have an adverse effect on our results of operations, financial condition or business. The particular consumer protection matters regulate the marketing, sales, construction, closing and financing of our homes. 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.

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, as well as anti-money laundering compliance obligations applicable to non-bank residential mortgage lenders.

Information technology failures and data security breaches could harm our business.

We use information technology, digital communications and other computer resources to carry out important operational and marketing activities and to maintain our business records. Many of these resources are provided to us and/or maintained on our behalf by third-party service providers pursuant to agreements that specify to varying degrees certain security and service level standards. Although we and our service providers employ what we believe are adequate security and other preventative and corrective measures, our ability to conduct our business may be impaired if these resources, including our website, are compromised, degraded, damaged or fail, whether due to a virus or other harmful circumstance, intentional penetration or disruption of our information technology resources by a third party, natural disaster, hardware or software corruption or failure or error (including a failure of security controls incorporated into or applied to such hardware or software), telecommunications system failure, service provider error or failure or intentional or unintentional personnel actions (including the failure to follow our security protocols). A significant and extended disruption in the functioning of these resources, including our website, could damage our reputation and cause us to lose customers, sales and revenue, result in the unintended and/or unauthorized public disclosure or the misappropriation of proprietary, personal identifying and confidential information (including information about our homebuyers and business partners), and require us to incur significant expense to address and remediate or otherwise resolve these kinds of issues. The release of confidential information

may also lead to litigation or other proceedings against us by affected individuals and/or business partners and/or by regulators, and the outcome of such proceedings, which could include penalties or fines, could have a material and adverse effect on our consolidated financial statements. In addition, the costs of maintaining adequate protection against such threats, depending on their evolution, pervasiveness and frequency and/or government-mandated standards or obligations regarding protective efforts, could be material to our consolidated financial statements in a particular period or over various periods.

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, this could materially and adversely impact our operations and result in additional expenses for identifying and training new personnel.

Risks related to the notes and our common shares

Our indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations under the notes, and we and our subsidiaries may incur additional indebtedness, which could increase the risks created by our indebtedness.

As of June 30, 2012, after giving effect to the issuance of notes in this offering, we had approximately $288.2 million of indebtedness outstanding (excluding issuances of letters of credit and the MIF Mortgage Warehousing Agreement), $238.2 million of which was senior indebtedness, including $6.4 million of which was senior secured indebtedness, and $52.0 million of available borrowings with respect to secured indebtedness under the Credit Facility. In addition, under the terms of the Credit Facility, the indenture governing the notes, the indenture governing our 2018 Senior Notes and the documents governing our other indebtedness, we have the ability, subject to applicable debt covenants, to incur additional indebtedness. The incurrence of additional indebtedness could magnify other risks related to us and our business. Our indebtedness and any future indebtedness we may incur could have a significant adverse effect on our future financial condition and our ability to fulfill our obligations under the notes. For example:

- a significant portion of our cash flow may be required to pay principal and interest on our indebtedness, which could reduce the funds available for working capital, capital expenditures, acquisitions or other purposes;

- borrowings under the Credit Facility bear, and borrowings under any new facility entered into before the maturity of the notes could bear, interest at floating rates, which could result in higher interest expense in the event of an increase in interest rates;

- the terms of our indebtedness could limit our ability to borrow additional funds or sell assets to raise funds, if needed, for working capital, capital expenditures, acquisitions or other purposes;

- our debt level and the various covenants contained in the Credit Facility, the indenture, the indenture governing our 2018 Senior Notes and the documents governing our other indebtedness could place us at a relative competitive disadvantage as compared to some of our competitors;

- the terms of our indebtedness could prevent us from raising the funds necessary to repurchase all of the notes or the 2018 Senior Notes tendered to us upon the occurrence of a fundamental

change or a change of control, respectively, which would constitute a default under the applicable indenture, which in turn could trigger a default under the Credit Facility and the documents governing our other indebtedness; and

the Credit Facility and certain of our other indebtedness have maturity dates prior to the maturity date of the notes, and if we are unable to repay or refinance such indebtedness upon maturity, we could be forced into bankruptcy or liquidation, which would constitute an event of default under the indenture and reduce or eliminate our ability to pay our obligations under the notes when due.

The occurrence of any one of these events could have a material adverse effect on our business, financial condition, results of operations, prospects or ability to satisfy our obligations under the notes. See Description of other indebtedness.

We may be unable to generate a sufficient amount of cash flow to meet our debt obligations, including our obligations under the notes.

Our ability to make scheduled payments or to refinance our obligations with respect to the notes and our other indebtedness will depend on our financial and operating performance, which is subject to prevailing economic conditions and to certain financial, business and other factors beyond our control. If our cash flow and capital resources are insufficient to fund our debt obligations, we could face substantial liquidity problems and may be forced to reduce or delay capital expenditures, sell material assets or operations, obtain additional capital or restructure our debt. We cannot assure you that our operating performance, cash flow and capital resources will be sufficient for the payment of our indebtedness in the future. In the event that we are required to dispose of material assets or operations or restructure our debt to meet our debt obligations, we cannot assure you as to the terms of any such transaction or how quickly any such transaction could be completed.

Your right to receive payments on the notes is subordinated to our senior indebtedness and junior to our secured indebtedness.

The notes and the guarantees of the notes will be our and our subsidiary guarantors general senior subordinated unsecured obligations. The notes and the guarantees of the notes will be subordinated in right of payment to all our and our subsidiary guarantors existing and future senior indebtedness, including our indebtedness under the Credit Facility and our 2018 Senior Notes, will rank equal in right of payment with all our and our subsidiary guarantors future senior subordinated indebtedness, and will rank senior in right of payment to all our and our subsidiary guarantors future subordinated indebtedness. See Description of notes Subordination.

As of June 30, 2012, after giving effect to the issuance of notes in this offering, we had approximately $288.2 million of indebtedness outstanding (excluding issuances of letters of credit and the MIF Mortgage Warehousing Agreement), $238.2 million of which was senior indebtedness, including $6.4 million of which was senior secured indebtedness, and $52.0 million of available borrowings with respect to secured indebtedness under the Credit Facility.

Our obligations under the Credit Facility are secured by certain of the personal property of the Company and those subsidiaries of the company that are guarantors under the Credit Facility, including the equity interests in such guarantors owned by the Company and such guarantors, and by certain real property in Ohio, Indiana, Illinois and North Carolina.

The notes and the guarantees of the notes will be junior to our existing and future secured debt, including indebtedness under the Credit Facility, to the extent of the value of the assets securing

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such indebtedness. In the event that the Company or a subsidiary guarantor is declared bankrupt, becomes insolvent or is liquidated or reorganized, creditors whose debt is secured by assets of the Company or the subsidiary guarantors will be entitled to the remedies available to secured holders under applicable laws, including the foreclosure of the collateral securing such debt, before any payment may be made with respect to the notes or the affected guarantees. As a result, there may be insufficient assets to pay amounts due on the notes, and holders of the notes may receive less, ratably, than holders of our secured indebtedness. We can create additional borrowing availability under the Credit Facility to the extent we pledge additional assets. Borrowing availability under the Credit Facility can also be increased by increasing investments in assets currently pledged, but this is offset by the collateral value of homes delivered that are within the pledged asset pool. We may also incur additional secured indebtedness in the future.

In addition, all payments on the notes will be blocked in the event of a payment default on senior indebtedness until such payment default is cured or waived and may be blocked for up to 179 of 360 consecutive days in the event of certain non-payment defaults on senior indebtedness.

The notes will be structurally subordinated to the liabilities of any of our subsidiaries that do not guarantee the notes to the extent of the assets of such non-guarantor subsidiaries.

The notes will be structurally subordinated to all liabilities of any of our subsidiaries that do not guarantee the notes. Therefore, our rights and the rights of our creditors to participate in the assets of any such subsidiary in the event that such a subsidiary is liquidated or reorganized are subject to the prior claims of such subsidiary s creditors. As a result, all indebtedness and other liabilities, including trade payables, of the non-guarantor subsidiaries, whether secured or unsecured, must be satisfied before any of the assets of such subsidiaries would be available for distribution, upon a liquidation or otherwise, to us in order for us to meet our obligations with respect to the notes. For the year ended December 31, 2011, our non-guarantor subsidiaries accounted for approximately $14.5 million, or 2.6%, of our total revenues, and as of June 30, 2012, our non-guarantor subsidiaries accounted for approximately $68.1 million, or 10.2%, of our total assets and $51.9 million, or 13.1%, of our total liabilities.

Any guarantees provided by our subsidiaries are subject to possible defenses that may limit your right to receive payment from the guarantors with regard to the notes.

Although guarantees by our subsidiaries would provide the holders of the notes with a direct claim against the assets of the guarantors, enforcement of the guarantees against any guarantor would be subject to certain suretyship defenses available to guarantors generally. Enforcement could also be subject to other defenses available to the guarantors in certain circumstances. To the extent that the guarantees are not enforceable, you would not be able to assert a claim successfully against the guarantors.

The notes and the guarantees of the notes may not be enforceable because of fraudulent conveyance laws.

The notes and the guarantees of the notes may be subject to review under federal bankruptcy laws or relevant state fraudulent conveyance laws if a bankruptcy case or lawsuit is commenced by or on behalf of our unpaid creditors. Generally, under these laws, if in such a case or lawsuit a court were to find that at the time we issued the notes or one of our subsidiaries issued a guarantee of the notes:

we issued the notes or such subsidiary issued a guarantee with the intent of hindering, delaying or defrauding current or future creditors; or

- we or such subsidiary guarantor received less than reasonably equivalent value or fair consideration for issuing the notes or a guarantee of the notes, as the case may be, and we or such subsidiary guarantor:

  - were insolvent or were rendered insolvent by reason of the issuance of the notes or such guarantee;

  - were engaged, or were about to engage, in a business or transaction for which our or such subsidiary guarantor s remaining assets constituted unreasonably small capital to carry on our or such subsidiary guarantor s business; or

  - intended to incur, or believed that we or such subsidiary guarantor would incur, indebtedness or other obligations beyond the ability to pay such indebtedness or obligations as they matured (as all of the foregoing terms are defined in or interpreted under the relevant fraudulent transfer or conveyance statutes),

then the court could void the notes or such guarantee, as the case may be, subordinate the amounts owing under the notes or such guarantee to our presently existing or future indebtedness or take other actions detrimental to you.

The measure of insolvency for purposes of the foregoing considerations will vary depending upon the law of the jurisdiction that is being applied in any such proceeding. Generally, a company would be considered insolvent if, at the time it incurred indebtedness or issued a guarantee:

- it could not pay its debts or contingent liabilities as they become due;

- the sum of its debts (including contingent liabilities) was greater than its assets, at fair valuation; or

- the present fair saleable value of its assets was less than the amount required to pay the probable liability on its total existing debts and liabilities (including contingent liabilities) as they become absolute and mature.

If a note or a guarantee is voided as a fraudulent conveyance or is found to be unenforceable for any other reason, you will not have a claim against us or such subsidiary guarantor.

Each subsidiary guarantee contains a provision intended to limit the subsidiary guarantor s liability to the maximum amount that it could incur without causing the incurrence of obligations under its subsidiary guarantee to be a fraudulent conveyance. This provision may not be effective to protect the subsidiary guarantees from being voided under fraudulent conveyance laws.

Some significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to offer to repurchase the notes.

Upon the occurrence of a fundamental change, you have the right to require us to repurchase your notes. However, the fundamental change provisions will not afford protection to holders of notes in the event of other transactions that could adversely affect the notes. For example, transactions such as leveraged recapitalizations, refinancing, restructurings or acquisitions initiated by us may not constitute a fundamental change requiring us to repurchase the notes or a make-whole fundamental change requiring an adjustment to the conversion rate.

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In the event of any such transaction, the holders of the notes would not have the right to require us to repurchase the notes, even though each of these transactions could increase the amount of our indebtedness, or otherwise adversely affect our capital structure or any credit ratings, thereby adversely affecting the holders of notes.

In addition, the definition of change of control in the indenture includes the sale of all or substantially all of our assets. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, upon a sale of less than all of our assets, the ability of a holder of notes to require us to repurchase such notes may be uncertain.

We may not be able to repurchase the notes upon a fundamental change.

If a fundamental change occurs, you will have the right, at your option, to require us to repurchase for cash all or any part (equal to $1,000 or integral multiples of that amount) of your notes. The fundamental change repurchase price will be equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest (including additional amounts, if any), if any, to, but excluding, the fundamental change repurchase date. However, we may not have sufficient funds at the time of the fundamental change to repurchase all of the notes delivered for repurchase and we may not be able to arrange necessary financing on acceptable terms, if at all. In addition, our ability to repurchase the notes may be limited by law, by regulatory authority or by the agreements governing our other indebtedness outstanding at the time. The subordination provisions of the indenture may prohibit us from paying the fundamental change repurchase price as described under Description of notes Subordination. If we fail to pay the fundamental change repurchase price when due, we will be in default under the indenture governing the notes. A default under the indenture or the fundamental change itself could also lead to a default under the agreements governing our other indebtedness.

Recent regulatory actions may adversely affect the trading price and liquidity of the notes.

We expect that many investors in, and potential purchasers of, the notes will employ, or seek to employ, a convertible arbitrage strategy with respect to the notes. Investors that employ a convertible arbitrage strategy with respect to convertible debt instruments typically implement that strategy by selling short the common shares underlying the convertible notes and dynamically adjusting their short position while they hold the notes. Investors may also implement this strategy by entering into swaps on our common shares in lieu of or in addition to short selling the common shares. As a result, any specific rules regulating equity swaps or short selling of securities or other governmental action that interferes with the ability of market participants to effect short sales or equity swaps with respect to our common shares could adversely affect the ability of investors in, or potential purchasers of, the notes to conduct the convertible arbitrage strategy that we believe they will employ, or seek to employ, with respect to the notes. This could, in turn, adversely affect the trading price and liquidity of the notes.

The SEC and other regulatory and self-regulatory authorities have implemented various rules and may adopt additional rules in the future that may impact those engaging in short selling activity involving equity securities (including our common shares). In particular, Rule 201 of SEC Regulation SHO generally restricts short selling when the price of a covered security triggers a circuit breaker by falling 10% or more from the security s closing price as of the end of regular trading hours on the prior day. If this circuit breaker is triggered, short sale orders can be displayed or executed only if the order price is above the current national best bid, subject to

certain limited exceptions. Because our common shares are a covered security, these Rule 201 restrictions, if triggered, may interfere with the ability of investors in, and potential purchasers of, the notes, to effect short sales in our common shares and conduct the convertible arbitrage strategy that we believe they will employ, or seek to employ, with respect to the notes.

The SEC also approved a pilot program allowing securities exchanges and the Financial Industry Regulatory Authority, Inc. (FINRA) to halt trading in securities included in the S&P 500 Index, Russell 1000 Index and over 300 exchange traded funds if the price of any such security moves 10% or more from a sale price in a five-minute period (the SRO pilot program). Beginning on August 8, 2011, the SRO pilot program was expanded to include all other NMS stocks, and imposes a trading halt in these additional stocks in the event of any price movement of 30% or 50% (or more), depending upon the trading price of the stock. Beginning on November 23, 2011, the SRO pilot program was amended to exclude all rights and warrants from the trading halt. The SRO pilot program is effective until the earlier of (a) the determination by the SEC to make the SRO pilot program permanent or (b) January 31, 2013.

On June 1, 2012, the SEC, jointly with the national securities exchanges and FINRA, established the Limit Up-Limit Down mechanism which prevents trades in individual listed equity securities from occurring outside of specific price bands during regular trading hours. If trading is unable to occur within those price bands for more than 15 seconds, there would be a five-minute trading pause. The exchanges and FINRA will implement this change by February 4, 2013. The SEC approved the proposal for a one-year pilot period, during which the exchanges, FINRA, and the SEC will assess its operation and consider whether any modifications are appropriate.

The enactment of the Dodd-Frank Act on July 21, 2010 also introduces regulatory uncertainty that may impact trading activities relevant to the notes. This new legislation will require many over-the-counter swaps and security-based swaps to be centrally cleared through regulated clearinghouses and traded on exchanges or comparable trading facilities. In addition, swap dealers, security-based swap dealers, major swap participants and major security-based swap participants will be required to comply with margin and capital requirements as well as public reporting requirements to provide transaction and pricing data on both cleared and uncleared swaps. These requirements could adversely affect the ability of investors in, or potential purchasers of, the notes to maintain a convertible arbitrage strategy with respect to the notes (including increasing the costs incurred by such investors in implementing such strategy). This could, in turn, adversely affect the trading price and liquidity of the notes. The implementation dates for these requirements are subject to regulatory action and at this time cannot be determined with certainty. We cannot predict how this legislation will ultimately be implemented by the SEC and other regulators or the magnitude of the effect that this legislation will have on the trading price or liquidity of the notes.

Although the direction and magnitude of the effect that the amendments to Regulation SHO, FINRA and securities exchange rule changes and/or implementation of the Dodd-Frank Act may have on the trading price and the liquidity of the notes will depend on a variety of factors, many of which cannot be determined at this time, past regulatory actions have had a significant impact on the trading prices and liquidity of convertible debt instruments. For example, in September 2008, the SEC issued emergency orders generally prohibiting short sales of the common stock of certain financial services companies while Congress worked to provide a comprehensive legislative plan to stabilize the credit and capital markets.

The orders made the convertible arbitrage strategy that many convertible debt investors employ difficult to execute and adversely affected both the liquidity and trading price of convertible debt instruments issued by many of the financial services companies subject to the prohibition. Any governmental action that similarly restricts the ability of investors in, or potential purchasers of, the notes to effect short sales of our common shares, including the amendments to Regulation SHO, FINRA and exchange rule changes and the implementation of the Dodd-Frank Act, could similarly adversely affect the trading price and the liquidity of the notes.

Future sales of our common shares or preferred shares in the public market could lower the market price for our common shares and adversely impact our ability to raise capital through the sale of additional equity securities.

We may issue equity securities in the future for a number of reasons, including to finance our operations and business strategy, to adjust our ratio of debt to equity, to satisfy our obligations upon exercise of outstanding options or for other reasons. Our amended and restated articles of incorporation provide that we have authority to issue 38,000,000 common shares and 2,000,000 preferred shares. As of June 30, 2012, 18,859,699 common shares were outstanding, 2,204,440 common shares were issuable related to awards outstanding under our incentive compensation plans and 4,000 of our 9.75% Series A Preferred Shares were outstanding. In addition, assuming completion of this offering, a substantial number of our common shares will be reserved for issuance upon conversion of the notes. We cannot predict the size of future issuances or the effect, if any, that they may have on the market price for our common shares. The issuance and sale of substantial amounts of common shares or additional preferred shares, or the perception that such issuances and sales may occur, could adversely affect the trading price of the notes and the market price of our common shares and impair our ability to raise capital through the sale of additional equity securities. We are currently offering up to 2,200,000 of our common shares (2,530,000 common shares if the underwriters exercise their over-allotment option). The issuance of our common shares upon conversion of the notes, assuming completion of this offering, and the offering of common shares, and or other issuances of our common shares or convertible or other equity linked securities will dilute the ownership interest of our common shareholders.

The price of our common shares could be affected by possible sales of our common shares by investors who view the notes as a more attractive means of equity participation in the Company. Sales of a substantial number of our common shares or other equity-related securities in the public market, or any hedging or arbitrage trading activity involving our common shares, could depress the market price of our common shares and impair our ability to raise capital through the sale of additional equity securities. This trading activity could, in turn, affect the trading prices of the notes. This may result in greater volatility in the trading price of the notes than would be expected for non-convertible debt securities.

The notes are not protected by restrictive covenants.

The indenture governing the notes will not contain any financial or operating covenants or restrictions on the payment of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by us or any of our subsidiaries. The indenture will not contain covenants or other provisions to afford protection to holders of the notes in the event of a fundamental change except as described under Description of notes Conversion rights Repurchase of notes at option of holder upon a fundamental change and Description of notes Conversion rights Adjustment to shares delivered upon conversion upon a make-whole fundamental change. We could engage in many types of transactions, such as acquisitions, refinancings or recapitalizations, that could substantially affect our capital structure and the value of the notes

and our common shares but may not constitute a fundamental change that permits holders to require us to repurchase their notes or a make-whole fundamental change that would require an increase in the conversion rate for notes converted in connection therewith.

The fundamental change repurchase feature of the notes may delay or prevent an otherwise beneficial attempt to take over our company.

The fundamental change repurchase rights and the provisions requiring an increase to the conversion rate or conversions in connection with make-whole fundamental changes may in certain circumstances delay or prevent a takeover of the Company and the removal of incumbent management that might otherwise be beneficial to investors.

Any adverse rating of the notes may cause their trading price to fall.

The notes may not be rated. However, if a rating service were to rate the notes and if such rating service were to lower its rating on the notes below the rating initially assigned to the notes or were to announce its intention to put the notes on credit watch, the trading price of the notes could decline.

You may have to pay taxes if we make or fail to make certain adjustments to the conversion rate of the notes even though you do not receive a corresponding distribution.

The conversion rate of the notes is subject to adjustment in certain circumstances. If the conversion rate is adjusted, under certain circumstances you may be treated as having received a constructive dividend from us, resulting in income to you for U.S. federal income tax purposes, even though you would not receive any cash related to that adjustment and even though you might not exercise your conversion right. In addition, if we fail to make (or adequately make) an adjustment to the conversion rate after an event that increases your proportionate interest in us, you may be deemed to have received a taxable dividend. Further, if a make-whole fundamental change occurs on or prior to the maturity date of the notes, and we increase the conversion rate for the notes converted in connection with the make-whole fundamental change, you may be deemed to have received a taxable dividend. If you are a Non-U.S. Holder (as defined in Material United States federal income and estate tax consequences), any deemed dividend may be subject to U.S. federal withholding tax (currently at a 30% rate, or such lower rate as may be specified by an applicable treaty), which may be withheld from subsequent payments on the notes (or, in certain circumstances, withheld from any payments on our common shares). See Material United States federal income and estate tax consequences.

U.S. federal income tax may be imposed on non-U.S. Holders on any gain on a sale or other disposition of the notes.

Because we believe that we are a United States real property holding corporation for U.S. federal income tax purposes, upon a sale or other disposition of the notes, a Non-U.S. Holder may be subject to U.S. federal income tax if either (1) as of the disposition date the notes are not considered regularly traded on an established securities market and the fair market value of the notes owned, actually or constructively, by the Non-U.S. Holder on the date the notes were acquired exceeded the fair market value of 5% of our outstanding common shares or (2) as of the disposition date the notes are considered regularly traded on an established securities market and, at any time during the shorter of the five-year period preceding the disposition date or the Non-U.S. Holder s holding period of such notes, the Non-U.S. Holder owned, actually or constructively, more than 5% of the outstanding notes. See Material United States federal income and estate tax consequences Non-U.S. Holders Foreign Investment in Real Property Tax Act.

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There is no active trading market for the notes and, if a trading market develops, it may not be liquid.

The notes are a new issue of securities for which there is currently no active trading market. We do not intend to list the notes on any securities exchange or seek their quotation on any automated quotation system. The liquidity of a trading market in the notes, if any, and the future trading prices of the notes will depend on many factors, including:

- prevailing interest rates;
- the price of our common shares;
- the market for similar securities; and
- other factors, including general economic conditions and our financial condition, performance and prospects.

In addition, the market for convertible debt securities has historically been subject to disruptions that have caused price volatility independent of the operating and financial performance of the issuers of these securities. It is possible that the market for the notes will be subject to these kinds of disruptions. Accordingly, declines in the liquidity and market price of the notes may occur independent of our financial performance. We cannot assure you that any active or liquid market for the notes will develop or be maintained. If an active trading market does not develop or is not maintained, the market price and liquidity of the notes may be adversely affected. In that case, you may not be able to sell your notes at a particular time or you may not be able to sell your notes at a favorable price.

The underwriters have advised us that they currently intend to make a market in the notes, but they are not obligated to do so. The underwriters may discontinue any market making activities in the notes at any time in their sole discretion and without notice, which could further negatively impact your ability to sell the notes or the prevailing market price at the time you choose to sell.

If you hold notes, you will not be entitled to any rights with respect to our common shares, but you will be subject to all changes made with respect to our common shares.

If you hold notes, you will not be entitled to any rights with respect to our common shares (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common shares), but you will be subject to all changes affecting the common shares. You will only have rights with respect to our common shares when we deliver common shares to you upon conversion of your notes and, to a limited extent, under the conversion rate adjustments applicable to the notes. For example, if an amendment is proposed to our articles of incorporation or code of regulations requiring shareholder approval, a holder of notes will not be entitled to vote on the amendment, although such holder will nevertheless be subject to any changes affecting our common shares.

The accounting for convertible debt securities is subject to uncertainty.

The accounting for convertible debt securities is subject to frequent scrutiny by the accounting regulatory bodies and is subject to change. We cannot predict if or when any such change would be made and it is possible any such change could have an adverse impact on our reported financial results and could adversely affect the market price of our common shares and our financial position and in turn negatively impact the trading price of the notes.

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The value of our common shares may not increase sufficiently to compensate for the relatively low rate of fixed interest on the notes.

The rate of interest we are required to pay with regard to the notes is less than the rate of interest we would be required to pay with regard to non-convertible unsecured debt securities primarily because of value attributed to the right to convert the notes into our common shares. However, the applicable market price of our common shares when the notes are being issued is less than the applicable conversion price. Therefore, unless the market price of our common shares increases, the conversion right may have no value. Even if the market price of our common shares increases, it may not increase to the point where the common shares issuable on conversion of a note have sufficient value to compensate for the relatively low interest we are required to pay with regard to the notes.

Upon conversion of the notes, the sum you receive may be less than expected because the value of our common shares may decline after you exercise your conversion right.

Under the notes, a converting holder will be exposed to fluctuations in the value of our common shares during the period from the date such holder surrenders notes for conversion until the date we settle our conversion obligation. Upon conversion of the notes, we will be required to deliver the common shares, together with cash for any fractional share, on the third business day following the relevant conversion date. Accordingly, if the price of our common shares decreases during this period, the value of the shares that you receive will be adversely affected and would be less than the conversion value of the notes on the conversion date.

Your notes may become convertible into something other than our common shares.

There is nothing in the indenture governing the notes that prevents us from entering into mergers or other transactions in which our common shares are converted into the right to receive shares of another company or securities or assets (including cash) other than our common shares. While the indenture contains provisions intended to ensure that upon conversion you will receive what you would have received as a result of the transaction with regard to the common shares into which your notes were convertible, what you become entitled to receive upon conversion may not be as attractive to you as our common shares.

The conversion rate of the notes may not be adjusted for all dilutive events.

The conversion rate of the notes is subject to adjustment for certain events, including, but not limited to, the issuance of stock dividends on our common shares, the issuance of certain rights or warrants, subdivisions, combinations, distributions of capital stock, indebtedness, or assets, cash dividends and certain issuer tender or exchange offers as described under Description of notes Conversion rights Conversion rate adjustments. However, the conversion rate will not be adjusted for other events, such as a third-party tender or exchange offer or an issuance of our common shares for cash, that may adversely affect the trading price of the notes or our common shares. An event that adversely affects the value of the notes may occur, and that event may not result in an adjustment to the conversion rate.

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The adjustment to the conversion rate for notes converted in connection with a make-whole fundamental change may not adequately compensate you for any lost option value of your notes as a result of such transaction. In addition, the definition of a make-whole fundamental change is limited and may not protect you from losing some of the option value of your notes in the event of a variety of transactions that do not constitute a make-whole fundamental change.

Upon the occurrence of a make-whole fundamental change, we will, in certain circumstances, increase the conversion rate for a holder that converts its notes in connection with such make-whole fundamental change. The increase in the conversion rate will be determined based on the date on which the make-whole fundamental change becomes effective and the price paid (or deemed paid) per share of our common shares in such make-whole fundamental change, all as described below under Description of notes Conversion rights Adjustment to shares delivered upon conversion upon a make-whole fundamental change.

Although the adjustment to the conversion rate for notes converted in connection with a make-whole fundamental change is designed to compensate you for the option value of your notes that you lose as a result of a make-whole fundamental change, it is only an estimate of such value and may not adequately compensate you for such lost option value. In addition, if the price paid (or deemed paid) for our common shares in the make-whole fundamental change is greater than $80.00 per share or less than $17.63 per share (in each case, subject to adjustment in accordance with the indenture), then we will not be required to adjust the conversion rate if you convert your notes in connection with such make-whole fundamental change. Moreover, in no event will we increase the conversion rate solely because of such an adjustment to a rate that exceeds common shares per $1,000 principal amount of notes, subject to adjustments in accordance with the indenture.

Furthermore, the definition of a make-whole fundamental change contained in the indenture is limited to certain enumerated transactions. As a result, the make-whole fundamental change provisions of the indenture will not afford protection to holders of the notes in the event that other transactions occur that could adversely affect the option value of the notes. For example, transactions, such as a spin-off or sale of a subsidiary with volatile earnings, or a change in our subsidiaries lines of business, could significantly affect the trading characteristics of our common shares and thereby reduce the option value embedded in the notes without triggering a make-whole fundamental change.

In addition, our obligation to increase the conversion rate upon the occurrence of a make-whole fundamental change could be considered a penalty, in which case the enforceability thereof would be subject to general principles of reasonableness of economic remedies.

Provisions of our charter documents, the Ohio General Corporation Law and our debt covenants could make it more difficult for a third party to acquire us, even if the offer may be considered beneficial by our shareholders.

Certain provisions of our amended and restated articles of incorporation and code of regulations, as well as provisions in the Ohio General Corporation Law and our debt covenants, could discourage potential takeover attempts and make attempts by shareholders to change management more difficult. These provisions could also adversely affect the market price of our common shares. For example:

Preferred shares

Our amended and restated articles of incorporation authorize our board of directors to issue, without any further vote or action by our shareholders, subject to certain limitations prescribed

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by law and the rules and regulations of the New York Stock Exchange, up to an aggregate of 2,000,000 preferred shares in one or more classes or series. With respect to any classes or series, the board of directors may determine the designation and the number of shares, rights, preferences, privileges, qualifications and restrictions, including dividend rights, voting rights, conversion rights, redemption rights and liquidation preferences. Absent a determination by the board of directors to establish different voting rights, holders of preferred shares are entitled to one vote per share on matters to be voted upon by the holders of common shares and preferred shares voting together as a single class, except that the Ohio General Corporation Law entitles the holders of preferred shares to exercise a class vote on certain matters. Our board of directors may authorize the issuance of preferred shares with voting or conversion rights that could adversely affect the voting power or other rights of the holders of our common shares. The issuance of preferred shares could have the effect of decreasing the market price of our common shares. The issuance of preferred shares also could have the effect of delaying, deterring or preventing a change in control without further action by our shareholders.

Classified board of directors

Our board of directors is divided into three classes, with regular three-year staggered terms. This classification system increases the difficulty of replacing a majority of the directors and may tend to discourage a third-party from making a tender offer or otherwise attempting to gain control of us. It also may maintain the incumbency of our board of directors. In addition, our code of regulations provide that the number of directors in each class and the total number of directors may only be changed by the affirmative vote of a majority of the directors or the holders of record of at least 75% of our voting power. Under the Ohio General Corporation Law, shareholders may not remove any directors on a classified board of directors, except for cause.

Limited shareholder action by written consent

Section 1701.54 of the Ohio General Corporation Law requires that an action by written consent of the shareholders in lieu of a meeting be unanimous, except that, pursuant to Section 1701.11, the code of regulations may be amended by an action by written consent of holders of shares entitling them to exercise two-thirds of the voting power of the corporation or, if the articles of incorporation or code of regulations otherwise provide, such greater or lesser amount, but not less than a majority. Our regulations provide that they may be amended or repealed without a meeting by the written consent of a majority of our voting power; provided, however, that the affirmative vote of two-thirds of our voting power is required (whether at a meeting or without a meeting in an action by written consent) to amend or repeal certain provisions of our regulations, as discussed below under Supermajority voting provisions. This provision may have the effect of delaying, deferring or preventing a tender offer or takeover attempt that a shareholder might consider in its best interest.

Supermajority voting provisions

The affirmative vote of two-thirds of our voting power is required to amend or repeal our existing regulations, or adopt a new code of regulations, with respect to any of the following:

- the requirements for calling special meetings of shareholders;
- the requirements for giving notice of annual or special meetings of shareholders;
- the provisions regarding our number of directors and our staggered board of directors;
- the provisions for filling vacancies or newly created directorships on our board of directors;

the procedures for nominating directors;
the provisions regarding conflicts of interest;
the requirement that directors can only be removed for cause;
the indemnification provisions;
our non-statutory Control Share Acquisition Act provisions; and
amendments to these supermajority provisions.

In addition, the affirmative vote of 75% of our voting power is required to amend or repeal the provision regarding changes in the number of directors in our regulations. On all other proposed amendments to our regulations, the required vote is a majority of our voting power.

Under the Ohio General Corporation Law, in the case of most mergers, sales of all or substantially all the assets of a corporation and most amendments to a corporation s articles of incorporation, the affirmative vote of two-thirds of the voting power of the corporation is required unless the corporation s articles of incorporation provide for a lower amount not less than a majority. Our articles do not change the default voting requirement provided by the Ohio General Corporation Law.

Shareholder nominations

Our regulations provide that shareholders seeking to nominate candidates for election as directors at an annual or special meeting of shareholders must provide timely notice to us in writing. To be timely, a shareholder s notice must be received at our principal executive offices not less than 60 days nor more than 90 days prior to the first anniversary of the date of the previous year s annual meeting (or, if the date of the annual meeting is changed by more than 30 days from the anniversary date of the preceding year s annual meeting, or in the case of a special meeting, within seven days after we mail the notice of the meeting or otherwise give notice of the meeting). The regulations also prescribe the proper written form for a shareholder s notice. These provisions may preclude some shareholders from making nominations for directors at an annual or special meeting.

Control Share Acquisition Act

Section 1701.831 of the Ohio General Corporation Law, known as the Control Share Acquisition Act, provides that certain notice and informational filings, and special shareholder meeting and voting procedures, must occur prior to any person s acquisition of an issuer s shares that would entitle the acquirer to exercise or direct the voting power of the issuer in the election of directors within any of the following ranges:

one-fifth or more (but less than one-third) of such voting power;
one-third or more (but less than a majority) of such voting power; and
a majority or more of such voting power.

The Control Share Acquisition Act does not apply to a corporation if its articles of incorporation or code of regulations so provide. We have opted out of the application of the Control Share Acquisition Act. However, we have adopted a substantially similar provision in our regulations with one significant exception: under our regulations, no shareholder meeting or vote is required if the board of directors has approved the acquisition of voting power. In addition, our regulations provide our board of directors with more flexibility than provided by the Control Share Acquisition Act in setting a date for the special meeting of shareholders to consider the proposed control share acquisition.

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NOL Protective Amendment

Although the basis for the NOL Protective Amendment is to preserve the tax treatment of our NOLs and built-in losses, the NOL Protective Amendment could be deemed to have an anti-takeover effect because, among other things, it restricts the ability of a person or group of persons to accumulate 5% or more of our common shares, and restricts the ability of a person or group of persons now owning 5% or more of our common shares from acquiring additional common shares, without the approval of our board of directors.

Debt Covenants

In addition, some of our debt covenants contained in the indenture, the indenture governing our 2018 Senior Notes and our Credit Facility may delay or prevent a change in control.

The price of our common shares may fluctuate significantly, which could cause the value of your investment to decline.

The price of our common shares as reported on the New York Stock Exchange constantly changes. Over the course of the last 12 months, the price of our common shares has ranged from $5.08 to $19.78 per share. The market price of our common shares may fluctuate in response to numerous factors, including:

- actual or anticipated fluctuations in our operating results;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- governmental regulatory action;
- changes in market valuations of similar companies;
- changes in the U.S. housing market;
- a change in analyst ratings or our credit ratings;
- the operating and stock performance of our competitors;
- announcements by us or our competitors of acquisitions, strategic partnerships, joint ventures or capital commitments;
- adverse market reaction to any additional debt we incur in the future;
- changes in interest rates;
- general domestic or international economic, market and political conditions;

- additions or departures of key personnel;

- terrorist activity may adversely affect the markets in which our securities trade, possibly increasing market volatility and causing the further erosion of business and consumer confidence and spending; and

- future sales of our common shares.

In addition, the stock markets from time to time experience extreme price and volume fluctuations that may be unrelated or disproportionate to the operating performance of companies. These broad fluctuations may adversely affect the trading price of our common shares, regardless of our actual operating performance.

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Any of these factors could have a material adverse effect on the price of our common shares, and our common shares may trade at prices significantly below the offering price. A decrease in the market price of our common shares would likely adversely impact the trading price of the notes.

We have no immediate plans to pay any cash dividends on our shares.

The indenture governing our 2018 Senior Notes contains covenants that, among other things, limit our ability to pay dividends on, and repurchase, our common shares and 9.75% Series A Preferred Shares to the amount of the positive balance in our restricted payments basket, as defined in the indenture. Additionally, the terms of our outstanding 9.75% Series A Preferred Shares prevent us from paying cash dividends on our common shares unless we have paid cash dividends on our 9.75% Series A Preferred Shares for the then-current quarterly dividend period. As a result of a deficit in our restricted payments basket under the indenture governing our 2018 Senior Notes and the terms of prior indebtedness that is no longer outstanding, we have been unable to pay dividends on our common shares or 9.75% Series A Preferred Shares since the third quarter of 2008. At June 30, 2012, the restricted payments basket was ($11.6 million). Assuming we complete the offering of common shares, the restricted payments basket will become positive and we will be permitted to pay dividends on, and repurchase, our common shares and our 9.75% Series A Preferred Shares to the extent of such positive balance in our restricted payments basket. However, we have no immediate plans to pay any cash dividends on our common shares or 9.75% Series A Preferred Shares. We expect to retain earnings to finance the continuing development of our business. See Use of proceeds. Any future payment of cash dividends will depend upon our results of operations, financial condition, capital requirements and compliance with debt covenants and the terms of our outstanding preferred shares, including our 9.75% Series A Preferred Shares, as well as other factors considered relevant by our board of directors.

Furthermore, we are permitted under the terms of our debt agreements to incur additional indebtedness, the terms of which may severely restrict or prohibit the payment of dividends. We cannot assure you that the agreements governing our current and future indebtedness will permit us to pay dividends on our common shares.

The NOL Protective Amendment may limit your ability to dispose of the common shares and adversely impact the value of the notes and common shares.

The NOL Protective Amendment restricts the ability of a person or group of persons to acquire, directly or indirectly, common shares if after such acquisition the acquiring person or group of persons owns, directly or indirectly, 5% or more of the common shares. Accordingly, the NOL Protective Amendment reduces the class of potential acquirers for our common shares.

For so long as the NOL Protective Amendment is in effect, our board of directors intends to require the placement of a legend reflecting the NOL Protective Amendment on certificates representing newly issued or transferred shares. Because certain buyers, including persons who may wish to acquire 5% or more of our common shares and certain institutional holders who do not or choose not to hold common shares with restrictive legends, may not purchase our common shares, the NOL Protective Amendment could depress the value of the notes and our common shares in an amount that might more than offset any value conserved as a result of the preservation of the NOLs and built-in losses.

Non-U.S. holders may be subject to U.S. federal income taxes on payments in connection with a disposition of our common shares.

Because we believe that we are a United States real property holding corporation for United States federal income tax purposes, upon a sale or other disposition of our common shares, a Non-U.S. Holder may be subject to U.S. federal income tax if (1) our common shares are not regularly traded on an established securities market, or (2) our common shares are regularly traded on an established securities market, and the Non-U.S. Holder at any time during the shorter of the five-year period preceding the disposition date or the Non-U.S. Holder s holding period of such common shares, owned (actually or constructively) common shares with a fair market value on the relevant date of determination that is greater than 5% of the total fair market value of our common shares. See Material United States federal income and estate tax consequences.

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Use of proceeds

We estimate that the net proceeds to us from the sale of the notes offered hereby will be approximately $47.5 million (or $54.6 million if the underwriters over-allotment option to purchase up to an additional $7,500,000 aggregate principal amount of notes is exercised in full) after deducting underwriting discounts and the estimated offering expenses payable by us. We intend to use the net proceeds of this offering for general corporate purposes, which may include acquisitions of land, land development, home construction, capital expenditures, increasing our working capital, repayment of indebtedness and other related purposes.

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Ratio of earnings to fixed charges

The following table sets forth our ratio of earnings to fixed charges, or the deficiency of earnings available to cover fixed charges, as appropriate, for each of the periods indicated:

	Six months ended June 30,		Fiscal year ended December 31,				
(Dollars in thousands)	**2012**	**2011**	**2011**	**2010**	**2009**	**2008**	**2007**
Ratio of earnings to fixed charges							
Coverage deficiency	$ 167	$ 25,660	$ 32,673	$ 24,085	$ 90,820	$ 211,906	$ 149,705

The ratio of earnings to fixed charges and coverage deficiency is determined by dividing earnings by fixed charges. Earnings consists of (loss) income from continuing operations before income taxes, loss (income) of unconsolidated joint ventures, fixed charges and interest amortized to cost of sales, excluding capitalized interest. Fixed charges consists of interest incurred, amortization of debt costs and that portion of operating lease rental expense (33%) deemed to be representative of interest.

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Capitalization

The following table sets forth our consolidated cash and restricted cash and capitalization as of June 30, 2012:

on an actual basis;