ST JOE CO
Form 10-Q
August 08, 2006

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

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2006

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to .

Commission file number 1-10466

The St. Joe Company
(Exact name of registrant as specified in its charter)

Florida	**59-0432511**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
245 Riverside Avenue, Suite 500 Jacksonville, Florida	**32202**
(Address of principal executive offices)	*(Zip Code)*

(904) 301-4200
(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO þ

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of August 1, 2006, there were 104,098,306 shares of common stock, no par value, issued and 74,190,195 outstanding, with 29,908,111 shares of treasury stock.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

THE ST. JOE COMPANY

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands)

	June 30, 2006	December 31, 2005
ASSETS		
Investment in real estate	$ 1,192,867	$ 1,036,174
Cash and cash equivalents	43,492	202,605
Accounts receivable, net	60,205	58,905
Prepaid pension asset	96,972	95,044
Property, plant and equipment, net	37,699	40,176
Goodwill, net	36,733	36,733
Other intangible assets, net	40,739	46,385
Other assets	63,080	75,924
	$ 1,571,787	$ 1,591,946
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Debt	$ 605,340	$ 554,446
Accounts payable	76,144	75,309
Accrued liabilities	136,523	135,156
Income tax payable	27,056	3,931
Deferred income taxes	257,890	315,912
Total liabilities	1,102,953	1,084,754
Minority interest in consolidated subsidiaries	17,082	18,194
STOCKHOLDERS EQUITY:		
Common stock, no par value; 180,000,000 shares authorized; 104,000,236 and 103,931,705 issued at June 30, 2006 and December 31, 2005, respectively	292,667	280,970
Retained earnings	1,073,749	1,074,990
Treasury stock at cost, 29,908,111 and 29,003,415 shares held at June 30, 2006 and December 31, 2005, respectively	(914,664)	(866,962)
Total stockholders equity	451,752	488,998

	$ 1,571,787	$ 1,591,946

See notes to consolidated financial statements.

THE ST. JOE COMPANY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	**2005**	**2006**	**2005**
Revenues:				
Real estate sales	$ 163,648	$ 228,349	$ 302,682	$ 386,878
Rental revenues	10,677	9,750	22,268	19,164
Timber sales	7,829	7,565	16,317	15,603
Other revenues	12,548	14,055	20,194	22,230
Total revenues	194,702	259,719	361,461	443,875
Expenses:				
Cost of real estate sales	101,207	142,557	194,833	247,534
Cost of rental revenues	4,514	3,945	8,785	7,466
Cost of timber sales	6,357	4,914	12,218	10,121
Cost of other revenues	12,205	11,818	20,239	19,837
Other operating expenses	18,233	17,457	38,399	33,151
Corporate expense, net	13,632	11,990	29,315	23,927
Depreciation and amortization	9,691	9,234	19,916	18,435
Total expenses	165,839	201,915	323,705	360,471
Operating profit	28,863	57,804	37,756	83,404
Other income (expense):				
Investment income, net	1,090	318	2,951	604
Interest expense	(4,964)	(3,401)	(8,698)	(5,731)
Other, net	1,949	936	300	1,918
Total other income (expense)	(1,925)	(2,147)	(5,447)	(3,209)
Income from continuing operations before equity in income of unconsolidated affiliates, income taxes, and minority interest	26,938	55,657	32,309	80,195
Equity in income of unconsolidated affiliates	2,739	5,521	5,582	7,425
Income tax expense	10,701	22,289	13,112	32,021
Income from continuing operations before minority interest	18,976	38,889	24,779	55,599
Minority interest	2,733	1,166	4,877	2,034

Income from continuing operations		16,243		37,723		19,902		53,565
Discontinued operations:								
Income (loss) from discontinued operations (net of income tax expense (benefit) of $8, $115, $36 and $(144), respectively)		13		191		60		(239)
Gain on sales of discontinued operations (net of income taxes of $1,637)		2,728				2,728		
Total income (loss) from discontinued operations		2,741		191		2,788		(239)
Net income		18,984		37,914		22,690		53,326
EARNINGS PER SHARE								
Basic								
Income from continuing operations	$	0.22	$	0.50	$	0.27	$	0.71
Earnings from discontinued operations								
Gain on sale of discontinued operations		0.03				0.03		
Net income	$	0.25	$	0.50	$	0.30	$	0.71
Diluted								
Income from continuing operations	$	0.22	$	0.50	$	0.27	$	0.70
Earnings from discontinued operations								
Gain on sale of discontinued operations		0.03				0.03		
Net income	$	0.25	$	0.50	$	0.30	$	0.70

See notes to consolidated financial statements.

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THE ST. JOE COMPANY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
(Dollars in thousands, except per share amounts)

	Common Stock		Retained	Treasury	
	Outstanding Shares	Amount	Earnings	Stock	Total
Balance at December 31, 2005	74,928,290	$ 280,970	$ 1,074,990	$ (866,962)	$ 488,998
Comprehensive income:					
Net income			22,690		22,690
Total comprehensive income					22,690
Issuances of restricted stock	48,913				
Forfeitures of restricted stock	(39,933)				
Dividends ($0.32 per share) and other distributions			(23,931)		(23,931)
Issuances of common stock	59,551	1,723			1,723
Tax benefit on options exercised and vested restricted stock		644			644
Amortization of stock-based compensation		9,330			9,330
Purchases of treasury shares	(904,696)			(47,702)	(47,702)
Balance at June 30, 2006	74,092,125	$ 292,667	$ 1,073,749	$ (914,664)	$ 451,752

See notes to consolidated financial statements.

THE ST. JOE COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOW

(Dollars in thousands)

	Six Months Ended June 30,	
	2006	**2005**
Cash flows from operating activities:		
Net income	$ 22,690	$ 53,326
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	20,276	20,789
Stock-based compensation	9,330	4,953
Excess tax benefits from stock-based compensation	(644)	
Minority interest in income	4,877	2,034
Equity in income of unconsolidated joint ventures	(5,583)	(7,425)
Distributions of income from unconsolidated affiliates	5,705	9,368
Deferred income tax (benefit) expense	(58,054)	9,386
Tax benefit on exercise of stock options		8,954
Cost of operating properties sold	193,472	246,430
Expenditures for operating properties	(349,294)	(251,535)
Gains on sale of discontinued operations	(4,365)	
Changes in operating assets and liabilities:		
Accounts receivable	(1,573)	(51,106)
Other assets	866	(19,701)
Accounts payable and accrued liabilities	(1,111)	16,791
Income taxes payable	23,801	9,053
Net cash (used in) provided by operating activities	$ (139,607)	$ 51,317
Cash flows from investing activities:		
Purchases of property, plant and equipment	(2,188)	(14,728)
Purchases of investments in real estate	(3,954)	(82,894)
Purchases of short-term investments, net of maturities and redemptions	(7)	
Investments in unconsolidated affiliates	(1,046)	
Proceeds from dispositions of assets		13
Proceeds from sale of discontinued operations	17,275	
Distributions of capital from unconsolidated affiliates		5,973
Net cash provided by (used in) investing activities	$ 10,080	$ (91,636)
Cash flows from financing activities:		
Proceeds from revolving credit agreements, net of repayments	50,000	50,000
Proceeds from other long-term debt	26	1,350
Repayments of other long-term debt	(4,630)	(30,727)
Distributions to minority interests	(5,989)	

Proceeds from exercises of stock options	1,723	9,152
Dividends paid to stockholders and other distributions	(23,931)	(21,609)
Excess tax benefits from stock-based compensation	644	
Treasury stock purchases	(47,429)	(42,926)
Investment by minority interest partner		2,860
Net cash used in financing activities	$ (29,586)	$ (31,900)
Net decrease in cash and cash equivalents	(159,113)	(72,219)
Cash and cash equivalents at beginning of period	202,605	94,816
Cash and cash equivalents at end of period	$ 43,492	$ 22,597

See notes to consolidated financial statements.

THE ST. JOE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying unaudited interim financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States for complete financial statements are not included herein. The interim statements should be read in conjunction with the financial statements and notes thereto included in the Company s latest Annual Report on Form 10-K. In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial position as of June 30, 2006 and December 31, 2005 and the results of operations for the three and six month periods ended June 30, 2006 and 2005 and cash flows for the six month periods ended June 30, 2006 and 2005. The results of operations for the three and six month periods ended June 30, 2006 and cash flows for the six month period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the full year.

2. Summary of Significant Accounting Policies

Principles of Consolidation

In May 2003, the Financial Accounting Standards Board (FASB) issued Statement of Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* (FAS 150). FAS 150 requires companies having consolidated entities with specified termination dates to treat minority owner s interests in such entities as liabilities in an amount based on the fair value of the entities. Although FAS 150 was originally effective July 1, 2003, the FASB has indefinitely deferred certain provisions related to classification and measurement requirements for mandatorily redeemable financial instruments that become subject to FAS 150 solely as a result of consolidation. As a result, FAS 150 has no impact on the Company s Consolidated Statements of Income for the six months ended June 30, 2006 or 2005. The Company has one consolidated entity with a specified termination date: Artisan Park, L.L.C. (Artisan Park). At June 30, 2006, the carrying amount of the minority interest in Artisan Park was $17.0 million and its fair value was $19.4 million. The Company has no other material financial instruments that are affected by FAS 150.

Stock-Based Compensation

During the first quarter of 2006, the Company adopted the provisions of FASB Statement of Financial Accounting Standards No. 123 revised 2004, *Share-Based Payment (SFAS 123R)*, which replaced Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation (SFAS 123)*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees (APB 25)*. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. The Company elected the modified-prospective method of adoption, under which prior periods are not revised for comparative purposes. The valuation provisions of SFAS 123R apply to new grants and to grants that were outstanding as of the effective date and are subsequently modified. Estimated compensation for the unvested portion of grants that were outstanding as of the effective date is being recognized over the remaining service period using the compensation cost estimated for the SFAS 123 pro forma disclosures. Additionally, the 15% discount at which employees may purchase the Company s common stock through payroll deductions is being recognized as compensation expense. Upon exercise of stock options or granting of non-vested stock, the Company will issue new

common stock.

Stock Options and Non-vested Restricted Stock

The Company has four stock incentive plans (the 1997 Stock Incentive Plan, the 1998 Stock Incentive Plan, the 1999 Stock Incentive Plan and the 2001 Stock Incentive Plan), whereby awards may be granted to certain employees and non-employee directors of the Company in the form of restricted shares of Company stock or

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

options to purchase Company stock. Awards are discretionary and are determined by the Compensation Committee of the Board of Directors. The total amount of restricted shares and options originally available for grant under the Company s four plans were 8.5 million shares, 1.4 million shares, 2.0 million shares, and 3.0 million shares, respectively. All non-vested restricted shares generally vest over two-year, three-year, or four-year periods, beginning on the date of each grant, but are considered outstanding at the time of grant for purposes of determining earnings per share since the holders are entitled to dividends and voting rights. Stock option awards are granted with an exercise price equal to market price of the Company s stock at the date of grant. The options are exercisable in equal installments on the first through fourth or fifth anniversaries, as applicable, of the date of grant and generally expire 10 years after the date of grant.

The Company currently uses the Black-Scholes option pricing model to determine the fair value of stock options. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by the stock price as well as assumptions regarding a number of other variables. These variables include expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors (term of option), risk-free interest rate and expected dividends.

The Company estimates the expected term of options granted by incorporating the contractual term of the options and analyzing employees actual and expected exercise behaviors. The Company estimates the volatility of its common stock by using historical volatility in market price over a period consistent with the expected term, and other factors. The Company bases the risk-free interest rate that it uses in the option valuation model on U.S. Treasury seven year issues with remaining terms similar to the expected term on the options. The Company anticipates paying cash dividends in the foreseeable future and therefore uses an estimated dividend yield in the option valuation model.

The assumptions used to value option grants for the six months ended June 30, 2006 and 2005 are as follows:

	2006	2005
Expected dividend yield	(1)	0.78%
Risk free interest rate	(1)	4.32%
Weighted average expected volatility	(1)	23.0%
Expected life (in years)	(1)	7

(1) No options were granted during the six-month period ended June 30, 2006.

Total stock-based compensation recognized on the consolidated statements of income for 2006 as corporate expense is as follows (in thousands):

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Stock option expense	$ 892	$ 1,885
Non-vested restricted stock	3,846	7,445
Employee stock purchase plan expense	71	120

Total	$	4,809	$	9,450

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth the pro forma amounts of net income and net income per share that would have resulted if the Company had accounted for employee stock plans under the fair value recognition provisions of SFAS 123 (in thousands except per share amounts):

	Three Months Ended June 30, 2005		Six Months Ended June 30, 2005	
Net income:				
Net income as reported	$	37,914	$	53,326
Add: stock-based compensation expense included in reported net income, net of related tax effects		1,238		2,431
Deduct: total stock-based compensation expense determined under fair value based methods for all awards, net of related tax effects		(1,967)		(3,886)
Net income pro forma	$	37,185	$	51,871
Per share Basic:				
Earnings per share as reported	$	0.50	$	0.71
Earnings per share pro forma	$	0.50	$	0.69
Per share Diluted:				
Earnings per share as reported	$	0.50	$	0.70
Earnings per share pro forma	$	0.49	$	0.68

The following table sets forth the summary of option activity outstanding under the stock option program for the six months ended June 30, 2006:

	Number of Shares	Weighted Average Exercise Price	
Balance at December 31, 2005	1,051,451	$	30.63
Granted			
Forfeited	(25,500)		31.45
Exercised	(59,551)		28.93
Balance at June 30, 2006	966,400	$	30.71

The total intrinsic value of options exercised during the three and six month periods ended June 30, 2006 was $0.2 million and $1.9 million, respectively. The intrinsic value is calculated as the difference between the market value as of exercise date and the exercise price of the shares.

The following table presents information regarding all options outstanding at June 30, 2006:

Number of Options Outstanding	Weighted Average Remaining Contractual Life	Range of Exercise Prices	Weighted Average Exercise Price
115,055	3 years	$15.96-$23.94	$ 19.48
782,345	6 years	$23.95-$35.91	$ 29.89
29,000	8 years	$35.92-$53.86	$ 40.21
40,000	8 years	$72.09	$ 72.09
966,400	6 years	$15.96-$72.09	$ 30.71

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents information regarding options exercisable at June 30, 2006:

Number of Options Exercisable	Weighted Average Remaining Contractual Life	Range of Exercise Prices	Weighted Average Exercise Price
115,055	3 years	$15.96-$23.94	$ 19.48
502,707	7 years	$23.95-$35.91	$ 29.52
14,500	8 years	$35.92-$53.86	$ 40.21
632,262	6 years	$15.96-$53.86	$ 27.94

The aggregate intrinsic value of options outstanding and options exercisable as of June 30, 2006 was $15.3 million and $11.8 million, respectively. The intrinsic value is calculated as the difference between the market value as of June 30, 2006 and the grant date fair value. The closing price as of June 30, 2006 was $46.54 per share as reported by the New York Stock Exchange.

Non-Vested Restricted Shares	Number of Shares	Weighted Average Grant Date Fair Value
Balance at December 31, 2005	890,738	$ 40.34
Granted	48,913	57.28
Forfeited	(39,933)	51.00
Vested	(34,273)	57.26
Balance at June 30, 2006	865,445	$ 43.42

Prior to the adoption of SFAS 123R, the Company recognized the estimated compensation cost of non-vested restricted stock over the vesting term. The estimated compensation cost is based on the fair value of the Company s common stock on the date of grant. The Company will continue to recognize the compensation cost over the vesting term.

As of June 30, 2006, there was $15.1 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock-based compensation arrangements. This cost includes $2.1 million related to stock option grants and $13.0 million of non-vested restricted stock which will be recognized over a weighted average period of four years.

Upon the adoption of, and in accordance with SFAS 123R, deferred compensation of $19.7 million previously reflected as a component of Stockholders Equity has been netted against Common Stock as of December 31, 2005, in the accompanying Consolidated Balance Sheets and Consolidated Statement of Changes in Stockholders Equity.

On February 14, 2006, the Board of Directors approved a management succession plan for the Company in which Kevin M. Twomey, former President and Chief Operating Officer, will be retiring later this year. Mr. Twomey s service as the Company s President and Chief Operating Officer ended at the Company s Annual Meeting of Shareholders on May 16, 2006. He will be retiring from the Company on December 28, 2006. Any of Mr. Twomey s unvested shares of restricted stock will vest as of his retirement date. As a result, the increase in stock-based compensation expense for the six months ended June 30, 2006 in connection with accelerating the vesting on 243,160 shares (fully amortized as of May 16, 2006) was $2.0 million.

Employee Stock Purchase Plan

In November 1999, the Company also implemented an employee stock purchase plan (ESPP), whereby all employees may purchase the Company s common stock through monthly payroll deductions at a 15% discount from the fair market value of its common stock at each month end, with an annual limit of $25,000 in purchases per employee.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Earnings Per Share

Earnings per share (EPS) is based on the weighted average number of common shares outstanding during the period. Diluted EPS assumes weighted average options have been exercised to purchase 321,247 and 826,243 shares of common stock in the three months ended June 30, 2006 and 2005, respectively, and that 622,281 and 566,626 shares of non-vested restricted stock were vested and issued as of June 30, 2006 and 2005, respectively, each net of assumed repurchases using the treasury stock method. Diluted EPS assumes weighted average options have been exercised to purchase 331,491 and 920,807 shares of common stock in the six months ended June 30, 2006 and 2005, respectively, and that 755,006 and 547,123 shares of non-vested restricted stock were vested and issued as of June 30, 2006 and 2005, respectively, each net of assumed repurchases using the treasury stock method.

Through June 30, 2006, the Board of Directors had authorized a total of $950.0 million for the repurchase from time to time of outstanding common stock from shareholders (the Stock Repurchase Program). A total of approximately $843.9 million had been expended in the Stock Repurchase Program from its inception through June 30, 2006. There is no expiration date on the Stock Repurchase Program.

From the inception of the Stock Repurchase Program to June 30, 2006, the Company repurchased from shareholders 27,897,511 shares and executives surrendered a total of 2,109,738 shares as payment for strike prices and taxes due on exercised stock options and vested restricted stock, for a total of 30,007,249 acquired shares. During the six month periods ended June 30, 2006 and 2005, the Company repurchased from shareholders 900,100 and 576,100 shares, respectively, and executives surrendered a total of 4,596 and 61,203 shares, respectively, as payment for strike prices and taxes due on exercised stock options and vested restricted stock.

Shares of Company stock issued upon the exercise of stock options for the six month periods ended June 30, 2006 and 2005 were 59,551 and 488,591 shares, respectively.

Weighted average basic and diluted shares, taking into consideration shares issued, weighted average unvested restricted shares, weighted average options used in calculating EPS and treasury shares repurchased, for each of the periods presented are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	**2005**	**2006**	**2005**
Basic	73,826,233	75,109,219	73,905,062	75,133,856
Diluted	74,540,823	76,502,088	74,740,791	76,601,786

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year s presentation.

The Company has made certain reclassifications in its June 30, 2005 operating, investing and financing cash flows which it considers to have an immaterial effect on these presentations.

Supplemental Cash Flow Information

The Company paid $16.6 million and $14.1 million for interest in the first six months of 2006 and 2005, respectively. The Company paid income taxes, net of refunds, of $49.0 million and $5.1 million in the first six months of 2006 and 2005, respectively. The Company capitalized interest expense of $8.2 million and $6.1 million during the first six months of 2006 and 2005, respectively.

During the six months ended June 30, 2006, the Company recorded excess non-cash tax benefits related to stock compensation of $0.6 million, compared to $9.0 million in the first six months of 2005. The Company also recorded $0.8 million related to restricted stock issuance, net of forfeitures, during the six months ended June 30, 2006 compared to $2.2 million for the first six months of 2005. In addition, non-cash activities for the six months ended June 30, 2006 included the surrender of Company stock worth $0.3 million by executives as payment for payroll taxes on vested restricted stock. During the six months ended June 30, 2005, non-cash activities included the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

surrender of Company stock worth $4.3 million by executives as payment for strike prices of stock options and payroll taxes on vested restricted stock. Other non-cash activities in 2006 include the extinguishment of $10.7 million of debt related to the Company s investment in a joint venture, and $15.5 million of Community Development District debt. In addition, during the first six months of 2005, the Company received a note receivable in the amount of $9.4 million in payment for the sale of its interest in an unconsolidated affiliate.

Prior to the adoption of SFAS 123R, the Company presented all tax benefits for deductions resulting from the exercise of stock options as operating cash flows on its consolidated statement of cash flows. SFAS 123R requires the benefits of tax deductions in excess of tax benefits related to recognized compensation expense to be reported as a financing cash flow, rather than as an operating cash flow. This requirement reduces net operating cash flows and increases net financing cash flows in periods after adoption. Total cash flow remains unchanged from what would have been reported under prior accounting rules.

Cash flows related to assets ultimately planned to be sold, including Towns & Resorts development and related amenities, sales of undeveloped and developed land by the land sales segment, the Company s timberland operations and land developed by the commercial segment are included in operating activities on the statements of cash flows. The Company s buildings developed for commercial rental purposes and assets purchased with tax-deferred proceeds are intended to be held for investment purposes and related cash flows from acquisitions and dispositions of those assets are included in investing activities on the statements of cash flows. Cash flows from investing activities also include related cash flows from assets not held for sale. Distributions of income from unconsolidated affiliates are included in cash flows from operating activities; distributions of capital from unconsolidated affiliates are included in cash flows from investing activities.

Discontinued Operations

Discontinued operations for the periods ended June 30, 2006 and 2005 include the results of operations of Advantis Real Estate Services Company (Advantis), which was sold on September 7, 2005, and the results of operations of four commercial buildings which were sold in the third and fourth quarters of 2005, and two which were sold in the second quarter of 2006, all of which were previously part of the commercial real estate segment.

Building sales included in discontinued operations for 2006 consisted of the sale of Prestige Place One & Two in Tampa, Florida, The two office buildings, totaling 147,000 square feet, were sold on June 28, 2006, for proceeds of $18.1 million and a pre-tax gain of $4.4 million. Aggregate revenues generated by Prestige Place One & Two prior to sale for the three months and six months ended June 30, 2006 were $0.6 million and $1.2 million, respectively, and $0.6 million and $1.1 million for the three months and six months ended June 30, 2005. Pre-tax income was less than $0.1 million and $0.2 million for both buildings for the three months and six months ended June 30, 2006, respectively, and a loss of less than $0.1 million for the three months and six months ended June 30, 2005.

Building sales included in discontinued operations in 2005 consisted of the sales of 1133 20th Street in Washington, DC, sold on September 29; Lakeview in Tampa, Florida, sold on September 7; Palm Court in Tampa, Florida, sold on September 7; and Harbourside in Clearwater, Florida, sold on December 14. Aggregate revenues generated by these four buildings prior to sale for the three months and six months ended June 30, 2005 were $2.3 million and $4.6 million, respectively. Pre-tax loss was $0.1 million for the three months and $0.2 million for the six months ended June 30, 2005.

Aggregate revenues generated by Advantis prior to sale for the three months and six months ended June 30, 2005 were $26.0 million and $51.5 million, respectively. Pre-tax income was $0.2 million for the three months and a loss of

$0.5 million for the six months ended June 30, 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Investment in Real Estate

Real estate by segment includes the following (in thousands):

	June 30, 2006	December 31, 2005
Operating property:		
Towns & Resorts	$ 99,572	$ 81,855
Commercial real estate	12,824	12,778
Land sales	1,266	1,029
Forestry	133,439	134,239
Other	61	374
Total operating property	247,162	230,275
Development property:		
Towns & Resorts	568,269	419,495
Commercial real estate	52,157	46,052
Land sales	26,758	13,528
Other	294	295
Total development property	647,478	479,370
Investment property:		
Commercial real estate	325,692	338,382
Land sales	260	260
Forestry	1,373	1,372
Other	7,146	6,816
Total investment property	334,471	346,830
Investment in unconsolidated affiliates:		
Towns & Resorts	11,867	22,027
Total real estate investments	1,240,978	1,078,502
Less: Accumulated depreciation	48,111	42,328
Investment in real estate investments	$ 1,192,867	$ 1,036,174

Included in operating property are Company-owned amenities related to Towns & Resorts, the Company s timberlands and land and buildings developed by the Company and used for commercial rental purposes. Development property consists of Towns & Resorts land and inventory currently under development to be sold. Investment property includes the Company s commercial buildings purchased with tax-deferred proceeds and land held for future use.

Depreciation expense reported on real estate was $9.4 million and $7.8 million in the six months ended June 30, 2006 and 2005, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Debt

Debt consists of the following (in thousands):

	June 30, 2006	December 31, 2005
Senior notes	$ 407,000	$ 407,000
Debt secured by certain commercial and residential property	144,340	143,446
Senior revolving credit agreement	50,000	
Various secured and unsecured notes payable	4,000	4,000
Total debt	$ 605,340	$ 554,446

The aggregate maturities of debt subsequent to June 30, 2006 are as follows (in millions):

2006	$ 51.6
2007	69.6
2008	58.4
2009	52.0
2010	3.7
Thereafter	370.0
Total	$ 605.3

The senior notes and the senior revolving credit agreement contain financial covenants, including minimum net worth requirements, maximum debt ratios, and fixed charge coverage requirements, plus some restrictions on prepayment. At June 30, 2006, management believes the Company was in compliance with the covenants.

In July 2006, the Company entered into an amendment agreement with its 2002 noteholders that modifies certain financial covenants. The amendment, when effective, will provide increased leverage capacity along with increased flexibility in maintaining minimum net worth levels, one effect of which is to provide additional flexibility regarding distributions to shareholders. The effectiveness of the covenant modifications is subject to certain conditions, including, but not limited to, the Company s prepayment of its $100 million outstanding 2004 senior notes. The Company has also entered into a loan agreement to provide a separate source of financing to potentially repay its 2004 senior notes.

5. Employee Benefit Plans

A summary of the net periodic pension credit follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Service cost	$ 1,225	$ 1,090	$ 2,450	$ 2,180
Interest cost	2,190	1,660	4,380	3,320
Expected return on assets	(4,657)	(3,802)	(9,315)	(7,604)
Prior service costs	180	152	360	304
Total pension income	$ (1,062)	$ (900)	$ (2,125)	$ (1,800)

6. Segment Information

The Company conducts primarily all of its business in four reportable operating segments: Towns & Resorts, commercial real estate, land sales and forestry. The Towns & Resorts segment develops and sells housing units and home sites and manages residential communities. The commercial real estate segment owns and leases commercial, retail, office and industrial properties throughout the Southeast and sells developed and undeveloped land and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

buildings. The land sales segment sells parcels of land included in the Company s holdings of timberlands. The forestry segment produces and sells pine pulpwood and timber and cypress products.

The Company uses income from continuing operations before equity in income (loss) of unconsolidated affiliates, income taxes and minority interest for purposes of making decisions about allocating resources to each segment and assessing each segment s performance, which it believes represents current performance measures.

The accounting policies of the segments are the same as those described above in the summary of significant accounting policies. Total revenues represent sales to unaffiliated customers, as reported in the Company s consolidated income statements. All intercompany transactions have been eliminated. The caption entitled Other consists of general and administrative expenses, net of investment income.

The Company s reportable segments are strategic business units that offer different products and services. They are each managed separately and decisions about allocations of resources are determined by management based on these strategic business units.

Information by business segment follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Operating Revenues:				
Towns & Resorts	$ 142,210	$ 205,254	$ 268,664	$ 342,417
Commercial real estate	15,552	23,294	29,890	44,466
Land sales	29,118	23,617	46,606	41,424
Forestry	7,822	7,554	16,301	15,568
Consolidated operating revenues	$ 194,702	$ 259,719	$ 361,461	$ 443,875
Income from continuing operations before equity in income (loss) of unconsolidated affiliates, income taxes and minority interest:				
Towns & Resorts	$ 19,420	$ 50,851	$ 31,110	$ 73,929
Commercial real estate	862	2,526	1,010	3,748
Land sales	23,048	16,039	34,865	28,092
Forestry	948	1,552	2,983	3,568
Other	(17,340)	(15,311)	(37,659)	(29,142)
Consolidated income from continuing operations before equity in income (loss) of unconsolidated affiliates, income taxes and minority interest	$ 26,938	$ 55,657	$ 32,309	$ 80,195

	June 30, 2006	December 31, 2005
Total Assets:		
Towns & Resorts	$ 797,889	$ 657,431
Commercial real estate	415,159	510,522
Land sales	47,774	48,204
Forestry	147,156	147,874
Corporate	163,809	227,915
Total assets	$ 1,571,787	$ 1,591,946

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Contingencies

The Company and its affiliates are involved in litigation on a number of matters and are subject to various claims which arise in the normal course of business, none of which, in the opinion of management, is expected to have a material adverse effect on the Company s consolidated financial position, results of operations or liquidity. We have established estimated accruals for our various litigation matters, which meet the requirements of FASB No. 5 *Accounting for Contingencies* . However, it is possible that the actual amounts of liabilities resulting from such matters could exceed such accruals by several million dollars.

The Company has retained certain self-insurance risks with respect to losses for third party liability, workers compensation, property damage, group health insurance provided to employees and other types of insurance.

At June 30, 2006 and December 31, 2005, the Company was party to surety bonds of $56.9 million and $46.4 million, respectively, and standby letters of credit in the amounts of $31.8 million and $30.3 million, respectively, which may potentially result in liability to the Company if certain obligations of the Company are not met.

At June 30, 2006 and December 31, 2005, the Company was not liable as guarantor on any credit obligations that relate to unconsolidated affiliates or others in accordance with FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.*

The Company is subject to costs arising out of environmental laws and regulations, which include obligations to remove or limit the effects on the environment of the disposal or release of certain wastes or substances at various sites, including sites which have been previously sold. It is the Company s policy to accrue and charge against earnings environmental cleanup costs when it is probable that a liability has been incurred and an amount can be reasonably estimated. As assessments and cleanups proceed, these accruals will be reviewed and adjusted, if necessary, as additional information becomes available.

Pursuant to the terms of various agreements by which the Company disposed of its sugar assets in 1999, the Company is obligated to complete certain defined environmental remediation. Approximately $5.0 million of the sales proceeds has been held in escrow pending the completion of the remediation. The Company has separately funded the costs of remediation. In addition, approximately $1.7 million is being held in escrow representing the value of the land subject to remediation. Remediation was substantially completed in 2003. Completion of remediation on one of the subject parcels occurred after the close of the second quarter and approximately $2.9 million of escrowed funds were released to the Company on August 1, 2006. The Company expects remaining remediation to be complete and the amounts held in escrow to be released to the Company in 2006.

The Company s former paper mill site in Gulf County and certain adjacent real property north of the paper mill site are subject to various Consent Agreements and Brownfield Site Rehabilitation Agreements with the Florida Department of Environmental Protection. The paper mill site has been assessed and rehabilitated by Smurfit-Stone Container Corporation in accordance with these agreements. Management does not believe the liability for any remaining required rehabilitation on these properties will be material.

Other proceedings involving environmental matters such as alleged discharge of oil or waste material into water or soil are pending against the Company. It is not possible to quantify future environmental costs because many issues relate to actions by third parties or changes in environmental regulation. However, based on information presently

available, management believes that the ultimate disposition of currently known matters will not have a material effect on the Company s consolidated financial position, results of operations or liquidity. Aggregate environmental-related accruals were $4.0 million as of both June 30, 2006 and December 31, 2005.

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Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Overview

The St. Joe Company is one of Florida s largest real estate operating companies. We believe we have one of the largest inventories of private land suitable for development in the State of Florida, with a very low cost basis. The majority of our land is located in Northwest Florida. In order to optimize the value of these core real estate assets, our business plan calls for us to reposition our substantial timberland holdings for higher and better uses. We increase the value of our raw land assets, most of which are currently managed as timberland, through the entitlement, development and subsequent sale of residential and commercial parcels, home sites and homes, or through the direct sale of unimproved land.

We have four operating segments: Towns & Resorts, commercial real estate, land sales, and forestry.

Our Towns & Resorts segment generates revenues from:

- the sale of developed home sites to retail customers and builders;
- the sale of parcels of entitled, undeveloped land;
- the sale of housing units built by us;
- rental income;
- club operations;
- investments in limited partnerships and joint ventures;
- brokerage, title issuance and mortgage origination fees on certain transactions within our Towns & Resorts developments; and
- management fees.

Our commercial real estate segment generates revenues from:

- the rental and/or sale of commercial buildings owned and/or developed by us; and
- the sale of developed and undeveloped land for retail, multi-family, office and industrial uses.

Our land sales segment generates revenues from:

- the sale of parcels of undeveloped land; and
- the sale of developed home sites primarily within rural settings.

Our forestry segment generates revenues from:

the sale of pulpwood and timber; and

the sale of cypress lumber and mulch.

Our ability to generate revenues, cash flows and profitability is directly related to the real estate market, primarily in Florida, and the economy in general. Economic, political and weather-related conditions could have adverse effects on consumer buying behavior, construction costs, availability of labor and materials, the cost and availability of insurance, the availability of and changes in prices of fuel and energy, and other factors affecting us and the real estate industry in general and coastal real estate in particular. Additionally, increases in interest rates could reduce the demand for homes we build and home sites we develop, particularly primary housing and home sites and commercial properties we develop or sell.

Sales activity in our resort residential projects in Northwest Florida has remained slow, significantly impacting revenue and earnings this year. Furthermore, considering the high levels of resale inventory available in many parts of Florida, including the Company s core markets in Northwest Florida, we believe activity in our resort and seasonal markets will remain slow for at least 18-24 months before there is a return to supply-demand equilibrium. Sales in some of our primary-home communities have also declined due to softening demand, reflecting the broader

Florida real estate slowdown, along with a temporary lack of product availability primarily due to permitting and platting issues that have since been resolved. However, there are signs of relative strength in other product categories, including commercial and rural land businesses. Regardless of short term market conditions, we believe that long-term prospects of job growth, coupled with strong in-migration population expansion in Florida, indicate that demand levels may remain favorable over the long term. We remain committed to long-term value creation, continuing to diversify our development business and generating land sales for a broad range of uses and price points.

We are continuing to develop our relationships with national and regional homebuilders. We have executed purchase and option contracts with several national and regional homebuilders for the purchase of developed lots in various communities. These transactions involve land positions in pre-development phases of JOE communities as well as phases currently under development. These transactions provide opportunities for us to accelerate value realization, while at the same time decreasing capital intensity and increasing efficiency in how we deliver primary housing to the market. We expect national and regional homebuilders to be meaningful customers going forward.

Forward-Looking Statements

This report includes forward-looking statements, particularly in the Management s Discussion and Analysis section. The Private Securities Litigation Reform Act of 1995 provides a safe-harbor for forward-looking information to encourage companies to provide prospective information about themselves without fear of litigation so long as that information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ, possibly materially, from those in the information. Any statements in this report that are not historical facts are forward-looking statements. You can find many of these forward-looking statements by looking for words such as intend , anticipate , believe , estimate , expect , plan , forecast , or similar expressions. In particular, forward-looking statements include, among others, statements about the following:

- the size and number of residential units and commercial buildings;
- expected development timetables and projected timing for the first sales or closings of homes or home sites in a community;
- development approvals and the ability to obtain such approvals, including possible legal challenges;
- the anticipated price ranges of developments;
- the number of units or commercial square footage that can be supported upon full build-out of a development;
- the number, price and timing of anticipated land sales or acquisitions;
- estimated land holdings for a particular use within a specific time frame;
- absorption rates and expected gains on land and home site sales;
- the pace at which we release new product for sale;
- future operating performance, revenues, earnings, cash flows, and short and long-term revenue and earnings growth rates;
- comparisons to historical projects;

- the amount of dividends we pay; and
- the dollar amount or number of shares of Company stock which may be purchased under the Company s existing or future share-repurchase program.

Forward-looking statements are not guarantees of future performance. You are cautioned not to place undue reliance on any of these forward-looking statements. These statements are made as of the date hereof based on current expectations, and we undertake no obligation to update the information contained in this Form 10-Q. New information, future events or risks may cause the forward-looking events we discuss in this report not to occur.

Forward-looking statements are subject to numerous assumptions, risks and uncertainties. Factors that could cause actual results to differ materially from those contemplated by a forward-looking statement include the risk factors described in our annual report on Form 10-K for the year ended December 31, 2005, as well as, among others, the following:

economic conditions, particularly in Northwest Florida, Florida as a whole and key areas of the southeastern United States that serve as feeder markets to our Northwest Florida operations;

changes in the demographics affecting projected population growth in Florida, including the migration of Baby Boomers;

changes in perceptions of or conditions in the national or Florida real estate market;

the termination of sales contracts or letters of intent due to, among other factors, the failure of one or more closing conditions or market changes;

whether our developments receive all land-use entitlements or other permits necessary for development and/or full build-out or are subject to legal challenge;

local conditions such as the supply of homes and home sites and residential or resort properties or a change in the demand for real estate in an area;

timing and costs associated with property developments and rentals;

the pace of commercial development in Northwest Florida;

competition from other real estate developers;

changes in operating costs, including real estate taxes and the cost of construction materials;

changes in the pricing and profit margins of our products;

changes in the amount or timing of federal and state income tax liabilities resulting from either a change in our application of tax laws, an adverse determination by a taxing authority or court, or legislative changes to existing laws;

how well we manage our properties;

changes in interest rates and the performance of the financial markets;

changes in market rental rates for our commercial and resort properties;

changes in the prices of wood products;

the pace of development of public infrastructure, particularly in Northwest Florida, including a proposed new airport in Bay County, which is dependent on approvals of the local Airport Authority and the Federal Aviation Administration, various permits, and the availability of adequate funding;

potential liability under environmental laws or other laws or regulations;

changes in laws, regulations or the regulatory environment affecting the development of real estate;

fluctuations in the size and number of transactions from period to period;

natural disasters, including hurricanes and other severe weather conditions, and the impact on current and future demand for our products;

the continuing effects of past years hurricane disasters on the regional and national economies and current and future demand for our products in Florida;

the prices and availability of labor and building materials;

changes in insurance rates and deductibles for property in Florida;

changes in gasoline prices; and

acts of war, terrorism, or other geopolitical events.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. We base these estimates on historical experience and on various other assumptions that management believes are reasonable under the circumstances. Additionally, we evaluate the results of these estimates on an on-going basis. Management s estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The critical accounting policies that we believe reflect our more significant judgments and estimates used in the preparation of our consolidated financial statements are set forth in Item 7 of our annual report on Form 10-K for the year ended December 31, 2005. There have been no significant changes in these policies during the first six months of 2006, except for changes related to stock-based compensation, as described below.

Recently Issued Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 152, *Accounting for Real Estate Time-Sharing Transactions* (FAS 152). FAS 152 clarifies the accounting for sales and other transactions involving real estate time-sharing transactions and is effective for financial statements for fiscal years beginning after June 15, 2005. The adoption of FAS 152 did not have any effect on our financial statements.

In October 2005, the FASB published FASB Staff Position (FSP) No. FAS 13-1, *Accounting for Rental Costs Incurred during a Construction Period* (FSP 13-1), which stipulates that a lessee s rental costs associated with operating leases during a construction period must be recognized as rental expense, included in income from continuing operations and allocated over the lease term according to current guidance on accounting for leases. Further, FSP 13-1 does not apply to projects accounted for under FAS 67. The impact of adopting FSP 13-1 did not have a material adverse impact on the Company s financial position or results of operations.

In June 2005, the FASB ratified the Emerging Issues Task Force s (EITF) consensus on Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights (EITF 04-5). In addition, the FASB issued FSP SOP 78-9-1, Interaction of AICPA Statement of Position (SOP) 78-9 and EITF Issue 04-5 to amend SOP 78-9, *Accounting for Investments in Real Estate Ventures*, so that its guidance is consistent with the consensus reached by the EITF in EITF No. 04-5. EITF 04-5 establishes that determining control of a limited partnership requires judgment, but that generally a sole general partner is deemed to control a limited partnership unless the limited partners have (a) the ability to substantially liquidate the partnership or otherwise remove the general partner without cause and/or (b) substantive participating rights. This consensus applies to limited partnerships or similar entities, such as limited liability companies that have governing provisions that are the functional equivalent of a limited partnership. Based on our evaluation of the operating agreements and history of decision making, we believe we are not required to consolidate any of our current unconsolidated investments. Accordingly, this EITF has not had a material effect on our financial statements.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections* (FAS 154). FAS 154 requires companies making voluntary changes to their accounting policies to apply the changes retrospectively, meaning that past earnings will be revised to reflect the impact in each period, rather than

the current practice of taking a single charge against current earnings. The statement applies to all voluntary changes in accounting policies and to new rules issued by the FASB that require companies to change their accounting, unless otherwise stated in the new rules. FAS 154 was effective for us beginning January 1, 2006, with earlier application allowed. The impact of adopting FAS 154 did not have a material adverse impact on our financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. We will adopt this Interpretation in the first quarter of 2007. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. We are currently evaluating the impact of FIN 48 on our consolidated financial statements, but are not yet in a position to determine the impact of the standard.

Stock-based Compensation

We adopted the provisions of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS 123R), on January 1, 2006. We elected the modified-prospective method of adoption, under which prior periods are not revised for comparative purposes. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. The valuation provisions of SFAS 123R apply to new grants and to grants that were outstanding as of January 1, 2006.

We currently use the Black-Scholes option pricing model to determine the fair value of stock options. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of other variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors (term of option), risk-free interest rate and expected dividends.

If factors change and we employ different assumptions for estimating stock-based compensation expense in future periods or if we decide to use a different valuation model, the future periods may differ significantly from what we have recorded in the current period and could materially affect our operating income, net income and net income per share.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of stock options. Existing valuation models, including Black-Scholes, may not provide reliable measures of the fair values of our stock-based compensation. Consequently, there is a risk that our estimates of the fair values of our stock-based compensation awards on the grant dates may bear little resemblance to the actual values realized upon the exercise, expiration, early termination or forfeiture of those stock-based payments in the future. Certain stock-based payments, such as employee stock options, may expire worthless or otherwise result in zero intrinsic value as compared to the fair values originally estimated on the grant date and reported in our financial statements. Alternatively, value may be realized from these instruments that are significantly higher than the fair values originally estimated on the grant date and reported in our consolidated financial statements. There currently is no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models, nor is there a means to compare and adjust the estimates to actual values.

Results of Operations

Net income decreased $18.9 million, or 50%, to $19.0 million, or $.25 per diluted share, in the second quarter of 2006, compared to $37.9 million, or $0.50 per diluted share, for the second quarter of 2005. Results for the period ended June 30, 2006 and 2005 reported in discontinued operations include the operations of Advantis Real Estate Services Company (Advantis), and six commercial buildings sold in 2006 and 2005.

We report revenues from our four operating segments: Towns & Resorts, commercial real estate, land sales, and forestry. Real estate sales are generated from sales of residential homes and home sites, parcels of developed and undeveloped land, and commercial buildings which are not reported as discontinued operations. Rental revenue is generated primarily from lease income related to our portfolio of investment and development properties as a component of the commercial real estate segment. Timber sales are generated from the forestry segment. Other revenues are primarily club operations and management fees from the Towns & Resorts segment.

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Revenues generated during the first quarter of each year by our largest segment, Towns & Resorts, are typically lower than other quarters of the year, particularly in Northwest Florida, where visitation levels and sales are lowest during this period.

Consolidated Results

Revenues and expenses. The following table sets forth a comparison of revenues and certain expenses for the three-month and six- month periods ended June 30, 2006 and 2005.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2006	2005	Difference	% Change	2006	2005	Difference	% Change
	(Dollars in millions)							
Revenues:								
Real estate sales	$ 163.6	$ 228.3	$ (64.7)	(28)%	$ 302.7	$ 386.9	$ (84.2)	(22)%
Rental revenues	10.7	9.7	1.0	10	22.3	19.2	3.1	16
Timber sales	7.8	7.6	0.2	3	16.3	15.6	0.7	4
Other revenues	12.6	14.1	(1.5)	(11)	20.2	22.2	(2.0)	(9)
Total	194.7	259.7	(65.0)	(25)	361.5	443.9	(82.4)	(19)
Expenses:								
Cost of real estate sales	101.2	142.6	(41.4)	(29)	194.8	247.5	(52.7)	(21)
Cost of rental revenues	4.5	3.9	0.6	15	8.8	7.5	1.3	17
Cost of timber sales	6.4	4.9	1.5	31	12.2	10.1	2.1	21
Cost of other revenues	12.2	11.8	0.4	3	20.2	19.8	0.4	2
Other operating expenses	18.2	17.5	0.7	4	38.4	33.2	5.2	16
Total	$ 142.5	$ 180.7	$ (38.2)	(21)%	$ 274.4	$ 318.1	$ (43.7)	(14)%

The decreases in revenues from real estate sales and cost of real estate sales for the three and six month periods ended June 30, 2006 compared to 2005 were in each case primarily due to decreased revenues in the Towns & Resorts segment and land sales in the commercial real estate segment. The increases in rental revenues and cost of rental revenues were in each case primarily due to the purchase of a commercial building in the commercial real estate segment in December 2005. Timber revenue increased primarily in the second quarter of 2006 due to increased sales and pricing to the Smurfit-Stone Container Corporation mill, and in the six-month period ended June 30, 2006 due to increased harvesting of pine for outside customers. Cost of timber revenues increased in each case due to increased logging costs caused primarily by higher fuel prices and road maintenance costs. Other revenues decreased primarily due to a decrease in resale brokerage activity in our Towns & Resorts segment. Other operating expenses increased during the six months ended June 30, 2006, primarily due to a new regional marketing campaign and increased insurance costs in our Towns & Resorts segment. For further discussion of revenues and expenses, see Segment Results below.

Corporate expense. Corporate expense, representing corporate general and administrative expenses, increased $1.6 million, or 13%, to $13.6 million in the second quarter of 2006, from $12.0 million in the second quarter of 2005. The increase was primarily due to increases in stock compensation, compensation costs, professional fees and other general and administrative expenses. Stock compensation increased $2.0 million in the second quarter of 2006 compared to 2005 as a result of acceleration of restricted stock amortization totaling $0.9 million related to the retirement of our President and COO, $0.1 million related to other restricted stock amortization and $1.0 million of stock compensation expense recorded under SFAS 123R. Compensation costs decreased $1.6 million due to a decrease of $2.8 million in corporate bonus and other employee benefits, offset by accelerating the expensing of salary and bonus of $1.2 million related to the retirement of our President and COO. Professional fees increased $0.6 million as a result of increased litigation costs. Other general and administrative expenses increased $0.6 million due to increases in insurance and marketing costs.

Corporate expense increased $5.4 million, or 23%, to $29.3 million in the first six months of 2006, from $23.9 million in the first six months of 2005. The increase was primarily due to increases in stock compensation, compensation cost, professional fees, and other general and administrative expenses. Stock compensation increased $4.3 million in the first six months of 2006 compared to 2005 as a result of acceleration of restricted stock amortization totaling $2.0 million related to the retirement of our President and COO, $0.3 million related to other restricted stock amortization and $2.0 million of stock compensation expense recorded under SFAS 123R. Compensation costs decreased $0.8 million due to a decrease of $3.3 million in corporate bonus and other employee benefits, offset by accelerating the expensing of salary and bonus of $2.5 million related to the retirement of our President and COO. Professional fees increased $1.4 million as a result of increased litigation costs. Other general and administrative expenses increased $0.5 million primarily due to increased marketing costs.

Depreciation and amortization. Depreciation and amortization increased $0.5 million, or 5%, to $9.7 million in the three-month period ended June 30, 2006 compared to $9.2 million in the three-month period ended June 30, 2005, and $1.5 million, or 8%, to $19.9 million in the first six months of 2006, compared to $18.4 million in the first six months of 2005. The increase was primarily due to an increase in depreciation resulting from the purchase of commercial operating properties.

Other income (expense). Other income (expense) consists of investment income, interest expense, gains on sales and dispositions of assets, litigation accruals and other income. Other income (expense) was $(1.9) million and $(2.1) million for the three-month periods ended June 30, 2006 and 2005, respectively, and $(5.4) million and $(3.2) million for the six-month periods ended June 30, 2006 and 2005, respectively. Other expense increased during the first six months of 2006 primarily due to increased litigation accruals of $2.5 million.

Equity in income (loss) of unconsolidated affiliates. We have investments in affiliates that are accounted for by the equity method of accounting. Equity in income of unconsolidated affiliates totaled $2.7 million and $5.5 million in the three-month periods ended June 30, 2006 and 2005, respectively, and $5.6 million and $7.4 million in the six-month periods ended June 30, 2006 and 2005, respectively. The decreases in equity income were in each case primarily due to the recording of income related to the gain on sale of Deerfield Commons I, L.L.C., which was sold in the second quarter of 2005.

Income tax expense. Income tax expense, including income tax on discontinued operations, totaled $12.3 million and $22.4 million for the three-month periods ended June 30, 2006 and 2005, respectively, and $14.8 million and $31.9 million for the six-month periods ended June 30, 2006 and 2005, respectively. Our effective tax rates were 39.4% and 37.1% for the three-month periods ended June 30, 2006 and 2005, respectively, and 39.4% and 37.4% for the six-month periods ended June 30, 2006 and 2005, respectively. For information on our expected increases in tax payments during 2006, see Liquidity and Capital Resources section.

Discontinued Operations. Income (loss) from discontinued operations, net of tax, totaled $2.7 million in the quarter ended June 30, 2006 compared to $0.2 million in 2005, and $2.8 million in the six months ended June 30, 2006, compared to $(0.2) million in 2005. The increase is primarily related to a gain on sale, net of tax, of $2.7 million related to two buildings sold in the second quarter of 2006.

Segment Results

Towns & Resorts

Our Towns & Resorts segment develops large-scale, mixed-use resort, primary and seasonal residential communities, primarily on land we own with very low cost basis. We own large tracts of land in Northwest Florida, including significant Gulf of Mexico beach frontage and waterfront properties, and land near Jacksonville, in Deland and near

Tallahassee, the state capital. Our residential homebuilding business in North and South Carolina is conducted through Saussy Burbank, Inc. (Saussy Burbank), a wholly owned subsidiary.

Resort residential sales have slowed significantly in 2006, compared to the more active pace of recent years. Considering the high levels of resale inventory available in our resort communities as well as in the markets where we operate, we believe activity in our resort and seasonal markets will remain slow for at least 18 to 24 months before there is a return to supply-demand equilibrium. Sales in some of our primary-home communities have also declined due to softening demand, reflecting the broader Florida real estate slowdown, along with a temporary lack

of product availability in certain communities, primarily due to permitting and platting issues that have since been resolved. We are introducing new products at lower price points within some of our developments to fill market segments where there is more limited competitive supply.

We continue to see increases in labor and construction material costs. Consequently, we believe our margins may continue to be adversely affected by any additional increases in such costs.

We are continuing to develop our relationships with national and regional homebuilders. We have executed purchase and option contracts with several national and regional homebuilders for the purchase of developed lots in various communities. These transactions involve land positions in pre-development phases of JOE communities as well as phases currently under development. These transactions provide opportunities for us to accelerate value realization, while at the same time decreasing capital intensity and increasing efficiency in how we deliver primary housing to the market. We expect national and regional homebuilders to be meaningful customers going forward.

The table below sets forth the results of operations of our Towns & Resorts development segment for the three-month and six-month periods ended June 30, 2006 and 2005:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2006	**2005**	**2006**	**2005**
	(In millions)			
Revenues:				
Real estate sales	$ 129.3	$ 190.9	$ 248.1	$ 319.9
Rental revenues	0.5	0.5	0.8	0.7
Other revenues	12.4	13.9	19.8	21.8
Total revenues	142.2	205.3	268.7	342.4
Expenses:				
Cost of real estate sales	95.8	128.0	186.6	221.3
Cost of rental revenues	0.5	0.5	0.8	0.7
Cost of other revenues	12.2	11.5	20.2	19.1
Other operating expenses	12.2	12.2	25.6	22.7
Depreciation and amortization	2.7	2.4	5.2	4.8
Total expenses	123.4	154.6	238.4	268.6
Other income (expense)	0.6	0.2	0.8	0.1
Pre-tax income from continuing operations	$ 19.4	$ 50.9	$ 31.1	$ 73.9

Revenues and costs of sales associated with multi-family units and Private Residence Club (PRC) units under construction are recognized using the percentage-of-completion method of accounting. Revenue on contracted units is recognized in proportion to the percentage of total costs incurred in relation to estimated total costs. If a deposit is received for less than 10% for a multi-family or PRC unit, percentage-of-completion accounting is not utilized. Instead, full accrual accounting criteria are used, which recognize revenue when sales contracts are closed. All

deposits are non-refundable (subject to a 15-day rescission period as required by law), except for non-delivery of the unit. In the event a contract does not close for reasons other than non-delivery, we are entitled to retain the deposit. In such instances, the revenue and margin related to the previously recorded contract is reversed. Revenues and cost of sales associated with multi-family units where construction has been completed before contracts are entered into and deposits made are recognized on the full accrual method of accounting as contracts are closed.

Our townhomes are attached building units sold individually along with a parcel of land. Revenues and cost of sales for our townhomes are accounted for using the full accrual method. These units differ from multi-family and PRC units, in which buyers hold title to a unit or fractional share of a unit, respectively, within a building and an interest in the underlying land held in common with other building association members.

Profit is deferred on home site sales when required development is not complete at the time of the sale. Currently, we are deferring a portion of profit from home site sales at WaterSound West Beach and SummerCamp. The closing of the home site is recorded at the time of the sale, while a portion of revenue and gross profit on the sales at those communities is deferred based on required development not yet completed in relation to total required development costs and recognized by the percentage-of-completion method as the work is completed.

Northwest Florida

WaterColor is situated on approximately 499 acres on the beaches of the Gulf of Mexico in south Walton County. We are building single-family and multi-family residences and selling developed home sites in WaterColor. This resort community is planned to include approximately 1,140 units, including a PRC with fractional ownership. From WaterColor s inception through June 30, 2006, total contracts accepted and closed totaled 865 homes and home sites, including 11 PRC units. Each PRC unit represents eight PRC interests.

WaterSound Beach, located approximately five miles east of WaterColor and situated on approximately 256 acres, includes over one mile of beachfront on the Gulf of Mexico. This resort community is currently entitled to include 511 units. From WaterSound Beach s inception through June 30, 2006, contracts for 414 units were accepted or closed.

WaterSound West Beach, located over one half mile west of WaterSound Beach on the beach side of County Road 30A, is being designed as a high-end resort community with 199 single-family home sites on approximately 62 acres. From WaterSound West Beach s inception through June 30, 2006, contracts for 13 units were accepted and closed.

Construction is proceeding at WaterSound, a resort community located approximately three miles from WaterSound Beach, less than two miles from the Gulf of Mexico and north of U.S. Highway 98 in Walton County. With a proposed 1,432 units of mixed-use development on approximately 2,425 acres owned by the Company, WaterSound is being planned for the pre-retirement and second-home markets with six and nine-hole golf courses along with pools, beach access and other amenities. Sales began in the second quarter of 2006 and contracts for seven home sites were accepted and closed.

Palmetto Trace is a primary home community in Panama City Beach planned for 481 units on 141 acres. From its inception through June 30, 2006, contracts for 441 units were accepted and closed. David Weekley Homes, LLP, a national homebuilder, is building out the last phase of Palmetto Trace.

Hawks Landing is a primary home community in Lynn Haven, in Bay County, on approximately 88 acres. We plan to develop and sell 168 home sites at Hawks Landing to local and national home builders. From its inception through June 30, 2006, contracts for 38 units were accepted or closed.

At WindMark Beach, construction continued on the next phase, presently planned for 1,552 units along more than 15,000 feet of beachfront near the town of Port St. Joe. Sales on this next phase began in the third quarter of 2006. Construction on the realignment of a 3.5-mile segment of U.S. 98 within WindMark Beach is scheduled for completion during the third quarter of 2006. Plans for this resort community provide for a public beachfront trail system to be constructed on the existing road bed once the road has been relocated away from the beach. Five retail home sites and one beachfront home remain to be sold of the 110 units in the first 80-acre phase, none of which have yet been offered for sale. From WindMark Beach s inception through June 30, 2006, contracts for 104 home sites were accepted and closed from the first phase.

SouthWood, a primary residential community situated on approximately 3,370 acres in southeast Tallahassee, has land use entitlements for up to 4,770 residential units and a town center with restaurants, retail shops, and offices. From SouthWood s inception through June 30, 2006, contracts for 2,020 units were accepted or closed.

SummerCamp is a 499-unit resort development on 762 acres located approximately 45 miles south of Tallahassee in Franklin County on the Gulf of Mexico. From its inception through June 30, 2006, contracts for 72 units were accepted or closed.

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Northeast Florida

During the second quarter of 2006, we began construction at RiverTown, a primary community which is planned for 4,500 units on 4,170 acres located in St. Johns County, south of Jacksonville, with more than 3.5 miles of frontage on the St. Johns River. Home site sales are currently expected to start in 2007.

St. Johns Golf & Country Club is a primary residential community located on approximately 820 acres in St. Johns County, Florida. The community is planned to include approximately 799 housing units and an 18-hole golf course. From its inception through June 30, 2006, contracts for 772 units were accepted or closed.

Central Florida

Victoria Park is situated on 1,859 acres in Deland between Daytona Beach and Orlando. Plans include approximately 4,200 primary residences built among parks, lakes and conservation areas. From Victoria Park s inception through June 30, 2006, contracts for 1,051 units were accepted or closed.

Artisan Park, located in Celebration, near Orlando, is being developed through a joint venture in which we own 74%. Artisan Park is situated on approximately 175 acres which we acquired. Current plans include approximately 616 primary residential units. From Artisan Park s inception through June 30, 2006, contracts for 523 units were accepted or closed.

We manage and own 50% of the joint ventures developing Rivercrest and Paseos, two primary residential communities. Sales are substantially complete at both communities. Rivercrest is a 1,382-unit primary residential community located near Tampa, and Paseos is a 325-unit primary residential community situated on 175 acres in Jupiter.

Southwest Florida

Infrastructure construction has started on SevenShores, formerly known as Perico Island. Located in the City of Bradenton in Manatee County, SevenShores is entitled for 686 condominium units on 192 acres, with a club house, related amenities, and access to a marina. Sales began in May 2006 with contracts for nine units accepted. During the second quarter, site work continued at SevenShores to prepare for this market s selling season that begins in the fourth quarter of 2006. Vertical construction will not commence at SevenShores until internally set presale requirements are satisfied.

Three Months Ended June 30

Real estate sales include sales of homes and home sites, as well as sales of land. Cost of real estate sales for homes and home sites includes direct costs (e.g., development and construction costs), selling costs and other indirect costs (e.g., construction overhead, capitalized interest, warranty and project administration costs).

The following table sets forth the components of our real estate sales and cost of real estate sales:

	Three Months Ended June 30, 2006			Three Months Ended June 30, 2005		
	Homes	Home Sites	Total	Homes	Home Sites	Total
	(Dollars in millions)					

Sales	$ 122.3	$ 7.0	$ 129.3	$ 138.2	$ 52.7	$ 190.9
Cost of Sales:						
Direct costs	79.6	1.8	81.4	98.7	9.4	108.1
Selling costs	6.1	0.2	6.3	7.4	1.7	9.1
Other indirect costs	7.6	0.5	8.1	9.7	1.1	10.8
Total Cost of Sales	93.3	2.5	95.8	115.8	12.2	128.0
Gross Profit	$ 29.0	$ 4.5	$ 33.5	$ 22.4	$ 40.5	$ 62.9
Gross Profit Margin	24%	64%	26%	16%	77%	33%

The overall decreases in real estate sales, gross profit and gross profit margin were primarily due to decreased home site sales and closings at our resort communities in Northwest Florida.

The following table sets forth home and home site sales activity by geographic region and property type, excluding Rivercrest and Paseos, two 50% owned affiliates accounted for using the equity method of accounting.

	Three Months Ended June 30, 2006				Three Months Ended June 30, 2005			
	Closed Units	Revenues	Cost of Sales	Gross Profit	Closed Units	Revenues	Cost of Sales	Gross Profit
	(Dollars in millions)							
Northwest Florida:								
Resort								
Single-family homes	2	$ 1.8	$ 1.5	$ 0.3	2	$ 1.5	$ 1.1	$ 0.4
Multi-family homes						7.4	4.7	2.7
Home sites	15	4.7	1.6	3.1	60	43.7	7.8	35.9
Primary								
Single-family homes	65	20.9	16.0	4.9	74	19.2	16.1	3.1
Townhomes	21	3.3	2.5	0.8	34	5.2	4.4	0.8
Home sites	19	1.3	0.4	0.9	22	3.0	1.8	1.2
Northeast Florida:								
Primary								
Single-family homes	17	9.1	6.8	2.3	43	17.7	14.0	3.7
Home sites					12	0.8	0.3	0.5
Central Florida:								
Primary								
Single-family homes	52	25.3	15.3	10.0	104	31.3	26.5	4.8
Multi-family homes	49	11.1	7.2	3.9		12.7	9.9	2.8
Townhomes	25	7.3	6.1	1.2	1	0.2	0.3	(0.1)
Home sites	6	1.0	0.5	0.5	26	5.2	2.3	2.9
North and South Carolina:								
Primary								
Single-family homes	151	43.1	37.6	5.5	175	43.0	38.8	4.2
Townhomes	2	0.4	0.3	0.1				
Total	424	$ 129.3	$ 95.8	$ 33.5	553	$ 190.9	$ 128.0	$ 62.9

In Northwest Florida, our current resort and seasonal communities include WaterColor, WaterSound Beach, WaterSound West Beach, WaterSound, WindMark Beach, and SummerCamp while current primary communities include Hawks Landing, Palmetto Trace, The Hammocks, SouthWood and Port St. Joe primary housing. In Northeast Florida the only current primary community is St. Johns Golf and Country Club. Current Central Florida communities include Artisan Park and Victoria Park, both of which are primary. North and South Carolina include Saussy Burbank s primary communities in Charlotte, Raleigh and Charleston.

In our Northwest Florida resort communities, closed units, revenues and gross profit decreased significantly in the second quarter of 2006 compared to the second quarter of 2005 as the demand for resort residential product has decreased. The gross profit from home site sales decreased to $3.1 million in the second quarter of 2006 from

$35.9 million in the same quarter last year due primarily to a significant decrease in the number of home sites sold and closed. Also, no gross profit was recognized on the sale of multi-family residences in the second quarter of 2006, compared to $2.7 million in the second quarter of 2005, due to the percentage-of-completion profit recognition on multi-family residences at WaterSound Beach in 2005 and the lack of construction and sales activity of this product during 2006.

Since required development was not complete at WaterSound West Beach and SummerCamp at the time home sites were closed in these communities, percentage of completion accounting was used. As a result, for home sites closed in the quarter ended June 30, 2006 at WaterSound West Beach, $0.2 million in revenue and $0.1 million of gross profit was deferred. At SummerCamp, for the home sites closed in the quarter ended June 30, 2006, $0.9 million in revenue and $0.6 million of gross profit was deferred. From project inception to date, WaterSound West Beach has remaining unrecognized deferred profit of $2.3 million, substantially all of which we expect to recognize by the end of 2007. SummerCamp has remaining unrecognized deferred profit of $8.5 million, substantially all of which we expect to recognize over the next several years as the required infrastructure is completed.

In our Northwest Florida primary communities, overall gross profit increased to $6.6 million in the second quarter of 2006 from $5.1 million in the second quarter of 2005 due to increases in sales prices, despite lower revenues and a reduction in the number of units closed. The gross profit from single-family home sales increased to $4.9 million in the second quarter of 2006 from $3.1 million in the second quarter of 2005, primarily due to an increase in the average sales price of the homes closed in Palmetto Trace. Townhome revenues and the number of townhomes closed decreased in the second quarter of 2006 as compared to the same period in 2005 as we have closed on most of the townhomes previously offered for sale in these communities. Home site revenues and gross profit decreased in the second quarter of 2006 compared with the second quarter of 2005 due to a decrease in closings in SouthWood as a result of softening demand reflecting the broader Florida real estate slowdown, along with a temporary lack of product availability primarily due to permitting and platting issues that have since been resolved. However, this decrease was partially offset by increased home site closings in Palmetto Trace resulting from our expanding relationship with David Weekley Homes.

In our Northeast Florida communities, closed units, revenues and gross profit decreased in the second quarter of 2006 as compared to the second quarter of 2005 as a result of a lack of product availability. St. Johns Golf and Country Club is nearing its completion later in 2006, while James Island and Hampton Park were completed during 2005. However, future product will become available in Northeast Florida as sales in Rivertown are expected to begin in 2007. Gross profit percentages on single-family home sales have increased as a result of closing homes sold at higher prices in the strong real estate market in 2005. The average price of a single-family residence closed in the second quarter of 2006 was $535,000 compared to $411,000 in the second quarter of 2005.

In our Central Florida communities, the gross profit on single-family home sales increased to $10.0 million in the second quarter of 2006 from $4.8 million in the second quarter of 2005, despite unit closings decreasing to 52 from 104 a year ago. The increase was a result of our ability to achieve stronger pricing on contracts entered into in these communities last year. Gross profit margin recognized using percentage-of-completion accounting on multi-family residences increased to 35% in the second quarter of 2006 from 22% in the second quarter of 2005 due primarily to our ability to raise prices to more than offset increased construction costs. Home site revenues and gross profit decreased in the second quarter of 2006 compared with the same period in 2005 due to a decrease in the number of units closed, while increased sales of townhomes during the second quarter of 2006 resulted in increased revenues and gross profit from townhome sales of $7.1 million and $1.3 million, respectively, as compared to the second quarter of 2005.

In our North and South Carolina communities, the gross profit on single-family home sales increased to $5.5 million in the second quarter of 2006 from $4.2 million in 2005 due primarily to price increases on comparable homes. The average price of a home closed in the second quarter of 2006 was $283,000 compared to $246,000 in the second quarter of 2005.

Other revenues included revenues from the WaterColor Inn and WaterColor vacation rental program, other resort and club operations, management fees and brokerage activities. Other revenues were $12.4 million in the second quarter of 2006 with $12.2 million in related costs, compared to revenues totaling $13.9 million in the second quarter of 2005

with $11.5 million in related costs. The decrease in other revenues and related gross profit of other revenues was primarily due to the decrease in resale brokerage activity.

Other operating expenses included salaries and benefits, marketing, project administration, support personnel and other administrative expenses. Other operating expenses remained consistent at $12.2 million in both the second quarter of 2006 and 2005.

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Six Months Ended June 30

The following table sets forth the components of our real estate sales and cost of real estate sales:

	Six Months Ended June 30, 2006			Six Months Ended June 30, 2005		
	Homes	Home Sites	Total	Homes	Home Sites	Total
	(Dollars in millions)					
Sales	$ 234.4	$ 13.6	$ 248.0	$ 243.2	$ 76.4	$ 319.6
Cost of Sales:						
Direct costs	154.3	4.0	158.3	173.5	14.0	187.5
Selling costs	11.8	0.4	12.2	12.8	2.3	15.1
Other indirect costs	15.3	0.8	16.1	16.9	1.6	18.5
Total Cost of Sales	181.4	5.2	186.6	203.2	17.9	221.1
Gross Profit	$ 53.0	$ 8.4	$ 61.4	$ 40.0	$ 58.5	$ 98.5
Gross Profit Margin	23%	62%	25%	16%	77%	31%

The overall decrease in real estate sales, gross profit and gross profit margin, was primarily due to decreases in home site sales in Northwest Florida resort communities and units closed in Northeast Florida.

The following table sets forth home and home site sales activity by geographic region and property type, excluding Rivercrest and Paseos, two 50% owned affiliates accounted for using the equity method of accounting.

	Six Months Ended June 30, 2006				Six Months Ended June 30, 2005			
	Closed Units	Revenues	Cost of Sales	Gross Profit	Closed Units	Revenues	Cost of Sales	Gross Profit
	(Dollars in millions)							
Northwest Florida:								
Resort								
Single-family homes	7	$ 6.7	$ 4.9	$ 1.8	2	$ 1.5	$ 1.2	$ 0.3
Multi-family homes						18.9	11.0	7.9
Private Residence Club					1	0.3	0.1	0.2
Home sites	18	6.4	2.1	4.3	80	63.4	11.5	51.9
Primary								
Single-family homes	129	40.1	31.0	9.1	147	35.2	30.4	4.8
Townhomes	43	6.7	5.3	1.4	70	10.1	8.9	1.2
Home sites	55	4.1	1.7	2.4	42	4.6	2.6	2.0
Northeast Florida:								
Primary								
Single-family homes	31	16.0	11.8	4.2	74	29.3	23.2	6.1
Home sites	6	0.9	0.4	0.5	20	1.3	0.4	0.9

Central Florida:								
Primary								
Single-family homes	102	47.9	30.9	17.0	173	48.7	42.1	6.6
Multi-family homes	65	21.9	14.3	7.6		23.8	18.2	5.6
Townhomes	46	13.0	11.0	2.0	2	0.7	0.8	(0.1)
Home sites	10	2.2	1.0	1.2	40	7.1	3.4	3.7
North and South Carolina:								
Primary								
Single-family homes	297	81.7	71.9	9.8	307	74.7	67.3	7.4
Townhomes	2	0.4	0.3	0.1				
Total	811	$ 248.0	$ 186.6	$ 61.4	958	$ 319.6	$ 221.1	$ 98.5

In our Northwest Florida resort communities, gross profit from home site sales decreased to $4.3 million in 2006 from $51.9 million in the same period last year due primarily to a significant decrease in the number of home sites sold and closed. Also, no gross profit was recognized on the sale of multi-family residences in 2006, compared to $7.9 million in 2005, due to the completion of multi-family residences in WaterSound Beach in 2005. These decreases were partially offset by increases in revenues, cost of sales and gross profit on single-family residences due primarily to 2006 closings of cottages at WaterSound Beach.

Since required development was not complete at WaterSound West Beach and SummerCamp at the time home sites were closed in these communities, percentage of completion accounting was used. As a result, for home sites closed in 2006 at WaterSound West Beach, we deferred $0.6 million in revenue and $0.4 million of gross profit. At SummerCamp, for home sites closed in 2006, we deferred $1.1 million in revenue and $0.7 million of gross profit. From project inception to date, WaterSound West Beach has remaining unrecognized deferred profit of $2.3 million, substantially all of which we expect to recognize by the end of 2007. SummerCamp has unrecognized deferred profit of $8.5 million, substantially all of which we expect to recognize over the next several years as the required infrastructure is completed.

In our Northwest Florida primary communities, overall gross profit increased to $12.9 million in 2006 from $8.0 million in 2005 due primarily to increases in sales prices, despite a reduction in the number of units closed. The gross profit from single-family home sales increased to $9.1 million in 2006 from $4.8 million in 2005 primarily due to an increase in the average sales price of homes closed in Palmetto Trace and SouthWood. Townhome revenues and the number of townhomes closed decreased in 2006 as compared to 2005 as we have closed on most of the townhomes previously offered for sale in these communities. Home site gross profit increased in 2006 compared with 2005 due primarily to increased closings in Palmetto Trace and Hawks Landing resulting from our expanding relationships with the national and regional homebuilders.

In our Northeast Florida communities, closed units, revenues and gross profit decreased in 2006 as compared to 2005 as a result of a lack of product availability. St. Johns Golf and Country Club is nearing its completion later in 2006, while James Island and Hampton Park were completed during 2005. However, future product will become available in Northeast Florida as sales in RiverTown are expected to begin in 2007. Gross profit percentages on single-family home sales have increased as a result of closing homes sold at higher prices in the strong real estate market in 2005. The average price of a single-family residence closed in 2006 was $516,000 compared to $396,000 in 2005.

In our Central Florida communities, the gross profit on single-family home sales increased to $17.0 million in 2006 from $6.6 million in 2005 despite unit closings decreasing to 102 from 173 a year ago. The increase was a result of our ability to achieve stronger pricing on contracts entered into in these communities last year. Gross profit percentages recognized using percentage-of-completion accounting on multi-family residences increased to 35% in 2006 from 24% in 2005 due primarily to our ability to raise prices to more than offset increased construction costs. Home site revenue and gross profit decreased in 2006 compared with 2005 due to a decrease in the number of units closed, while increased sales of townhomes during 2006 resulted in increased revenues and gross profit of $12.3 million and $2.1 million, respectively, as compared to 2005.

In our North and South Carolina communities, the gross profit on single-family home sales increased to $9.8 million in 2006 from $7.4 million in 2005 due primarily to price increases on comparable homes. The average price of a home closed in 2006 was $275,000 compared to $243,000 in 2005.

Other revenues included revenues from the WaterColor Inn and WaterColor vacation rental program, other resort and club operations, management fees and brokerage activities. Other revenues were $19.8 million in 2006 with $20.2 million in related costs, compared to revenues totaling $21.8 million in 2005 with $19.1 million in related costs. The decrease in revenue and gross profit of other revenues was primarily due to the decrease in resale brokerage

activity.

Other operating expenses included salaries and benefits, marketing, project administration, support personnel and other administrative expenses. Other operating expenses in 2006 were $25.6 million compared to $22.7 million in 2005. The increase is due primarily to a new regional marketing campaign and an increase in insurance costs which is expected to continue throughout 2006.

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Commercial Real Estate

The table below sets forth the results of operations of our commercial real estate segment for the three-month and six-month periods ended June 30, 2006 and 2005.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In millions)			
Revenues:				
Real estate sales	$ 5.2	$ 14.0	$ 8.1	$ 25.7
Rental revenues	10.2	9.2	21.4	18.5
Other revenues	0.1	0.1	0.4	0.3
Total revenues	15.5	23.3	29.9	44.5
Expenses:				
Cost of real estate sales	2.5	9.4	3.2	17.8
Cost of rental revenues	4.0	3.4	7.9	6.8
Other operating expenses	2.0	2.4	4.4	4.8
Depreciation and amortization	5.2	4.6	11.3	9.3
Total expenses	13.7	19.8	26.8	38.7
Other income (expense)	(0.9)	(1.0)	(2.1)	(2.0)
Pre-tax income from continuing operations	$ 0.9	$ 2.5	$ 1.0	$ 3.8

Real Estate Sales. Land sales included the following:

Land	Number of Sales	Acres Sold	Gross Proceeds (In millions)	Gross Price per Acre (In thousands)	Revenue (In millions)	Pre-Tax Gain on Sales (In millions)
Three Months Ended June 30, 2006:						
Northwest Florida	5	34	$ 9.5	$ 282.0	$ 5.2(a)	$ 2.7(a)
Other						
Total/Average	5	34	9.5	282.0	5.2(a)	2.7(a)
Three Months Ended June 30, 2005:						

Northwest Florida	11	25	2.9	116.0	3.0	2.1
Other	3	214	11.0	51.5	11.0	2.5
Total/Average	14	239	13.9	58.6	14.0	4.6

riod beginning on November 15, 2015, and will further decline to 100.000% of the principal amount outstanding if redeemed on or after November 15, 2016, but prior to maturity.

The indenture governing our 2018 Senior Notes limits our ability to pay dividends on, and repurchase, our common shares and our 9.75% Series A Preferred Shares (the “Series A Preferred Shares”) to the amount of the positive balance in our “restricted payments basket,” as defined in the indenture. The “restricted payments basket” is equal to $40.0 million (1) plus 50% of our aggregate consolidated net income (or minus 100% of our aggregate consolidated net loss) since October 1, 2010, excluding the income or loss from Unrestricted Subsidiaries, plus (2) 100% of the net cash proceeds from the sale of qualified equity interests, plus other items and subject to other exceptions. The restricted payments basket was $159.6 million and $148.6 million at September 30, 2015 and December 31, 2014, respectively. The determination to pay future dividends on, or make future repurchases of, our common shares or Series A Preferred Shares will be at the discretion of our board of directors and will depend upon our results of operations, financial condition, capital requirements and compliance with debt covenants and the terms of our Series A Preferred Shares, and other factors deemed relevant by our board of directors.

Convertible Senior Subordinated Notes

In March 2013, the Company issued $86.3 million aggregate principal amount of 2018 Convertible Senior Subordinated Notes. The 2018 Convertible Senior Subordinated Notes bear interest at a rate of 3.0% per year, payable semiannually in arrears on March 1 and September 1 of each year. The 2018 Convertible Senior Subordinated Notes mature on March 1, 2018. At any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2018 Convertible Senior Subordinated Notes into the Company’s common shares. The conversion rate initially equals 30.9478 shares per $1,000 of principal amount. This corresponds to an initial conversion price of approximately $32.31 per common share, which equates to approximately 2.7 million common shares. The conversion rate is subject to adjustment upon the occurrence of certain events. The 2018 Convertible Senior Subordinated Notes are fully and unconditionally guaranteed on a senior subordinated unsecured basis by those subsidiaries of the Company that are guarantors under the Company’s 2018 Senior Notes and 2017 Convertible Senior Subordinated Notes. The 2018 Convertible Senior Subordinated Notes are senior subordinated unsecured obligations of the Company and the subsidiary guarantors, are subordinated in right of payment to our existing and future senior

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

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

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

Notes Payable - Other

The Company had other borrowings, which are reported in Notes Payable - Other in our Unaudited Condensed Consolidated Balance Sheets, totaling $9.4 million and $9.5 million as of September 30, 2015 and December 31, 2014, respectively. The balance consists primarily of a mortgage note payable with a $4.0 million principal balance outstanding at September 30, 2015 (and $4.3 million principal balance outstanding at December 31, 2014), which is secured by an office building, matures in 2017 and carries an interest rate of 8.1%. The remaining balance is made up of other notes payable incurred through the normal course of business.

NOTE 8. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share amounts)	2015	2014	2015	2014
NUMERATOR				
Net income	$15,570	$13,617	$38,488	$39,803
Preferred stock dividends	(1,218)	(1,218)	(3,656)	(3,656)
Net income to common shareholders	14,352	12,399	34,832	36,147
Interest on 3.25% convertible senior subordinated notes due 2017	372	368	1,117	1,110
Interest on 3.00% convertible senior subordinated notes due 2018	502	496	1,507	1,497
Diluted income available to common shareholders	$15,226	$13,263	$37,456	$38,754
DENOMINATOR				
Basic weighted average shares outstanding	24,605	24,474	24,551	24,454
Effect of dilutive securities:				
Stock option awards	244	214	238	223
Deferred compensation awards	133	148	147	138
3.25% convertible senior subordinated notes due 2017	2,416	2,416	2,416	2,416
3.00% convertible senior subordinated notes due 2018	2,669	2,669	2,669	2,669
Diluted weighted average shares outstanding - adjusted for assumed conversions	30,067	29,921	30,021	29,900
Earnings per common share:				
Basic	$0.58	$0.51	$1.42	$1.48
Diluted	$0.51	$0.44	$1.25	$1.30
Anti-dilutive equity awards not included in the calculation of diluted earnings per common share	1,460	1,286	1,443	1,243

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

NOTE 9. Income Taxes

During the three and nine months ended September 30, 2015, the Company recorded a tax provision of $10.9 million and $25.6 million, respectively, which reflects income tax expense related to the period's pre-tax earnings. The effective tax rate for the three and nine months ended September 30, 2015 was 41.2% and 39.9%, respectively. During the three and nine months ended September 30, 2014, the Company recorded a tax provision of $8.6 million and $10.2 million, respectively, which reflects income tax expense related to the period's pre-tax earnings, as well as a benefit of $9.3 million from the reversal of our state deferred tax asset valuation allowance for the nine months ended September 30, 2014. The effective tax rate for the three and nine months ended September 30, 2014 was 38.7% and 20.4%, respectively, which was not meaningful due to the effects of the deferred tax asset valuation allowance and federal and state tax net operating losses ("NOLs"), and there was no correlation between the effective tax rate and the amount of pre-tax income for the period.

At September 30, 2015, the Company had federal NOL carryforwards of approximately $29.5 million and federal credit carryforwards of $8.6 million. Our federal NOL carryforwards may be carried forward from one to 17 years to offset future taxable income with the federal carryforward benefits beginning to expire in 2028. The Company had $9.5 million of state NOL carryforwards at September 30, 2015. Our state NOLs may be carried forward from one to 17 years, depending on the tax jurisdiction, with $3.4 million expiring between 2022 and 2027 and $6.1 million expiring between 2028 and 2032, absent sufficient state taxable income.

NOTE 10. Business Segments

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

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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2015	2014	2015	2014
Revenue:				
Midwest homebuilding	$128,121	$118,319	$331,479	$283,472
Southern homebuilding	137,185	118,150	341,139	299,472
Mid-Atlantic homebuilding	88,875	86,718	250,546	242,357
Financial services (a)	9,276	7,580	26,308	21,915
Total revenue	$363,457	$330,767	$949,472	$847,216
Operating income:				
Midwest homebuilding (b)	$13,511	$12,802	$33,526	$26,771
Southern homebuilding	13,860	10,215	30,421	24,741
Mid-Atlantic homebuilding	6,350	6,511	19,376	18,888
Financial services (a)	4,856	3,804	15,425	12,204
Less: Corporate selling, general and administrative expense	(8,457)	(8,502)	(23,051)	(23,126)
Total operating income	$30,120	$24,830	$75,697	$59,478
Interest expense:				
Midwest homebuilding	$649	$450	$2,536	$2,211
Southern homebuilding	1,649	968	5,185	3,927
Mid-Atlantic homebuilding	948	829	3,011	2,392
Financial services (a)	412	402	1,138	1,019
Total interest expense	$3,658	$2,649	$11,870	$9,549
Equity in income of unconsolidated joint ventures	(36)	(22)	(248)	(62)

Income before income taxes	$26,498	$22,203	$64,075	$49,991

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

(b) For the three months ended September 30, 2014, the impact of charges relating to the impairment of future communities in the Midwest region reduced operating income by $0.6 million. For the nine months ended September 30, 2014, the impact of charges relating to the impairment of operating and future communities in the Midwest region reduced operating income by $0.8 million and $0.6 million, respectively.

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

	September 30, 2015				
(In thousands)	Midwest	Southern	Mid-Atlantic	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	$3,092	$14,940	$3,962	$—	$21,994
Inventory (a)	366,677	423,588	321,155	—	1,111,420
Investments in unconsolidated joint ventures	5,783	27,499	—	—	33,282
Other assets	10,208	29,001	8,081	192,016	239,306
Total assets	$385,760	$495,028	$333,198	$192,016	$1,406,002

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

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

NOTE 11. Supplemental Guarantor Information

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

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

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

of the Credit Facility and the indenture for the 2018 Senior Notes.
In the condensed financial tables presented below, the parent company presents all of its 100%-owned subsidiaries as if they were accounted for under the equity method. All applicable corporate expenses have been allocated appropriately among the Guarantor Subsidiaries and Unrestricted Subsidiaries.

CONDENSED CONSOLIDATING STATEMENTS OF INCOME

(In thousands)	Three Months Ended September 30, 2015 M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated
Revenue	$—	$354,181	$9,276	$—	$363,457
Costs and expenses:					
Land and housing	—	285,416	—	—	285,416
General and administrative	—	19,080	4,571	—	23,651
Selling	—	24,270	—	—	24,270
Equity in income of unconsolidated joint ventures	—	—	(36)	—	(36)
Interest	—	3,246	412	—	3,658
Total costs and expenses	—	332,012	4,947	—	336,959
Income before income taxes	—	22,169	4,329	—	26,498
Provision for income taxes	—	9,531	1,397	—	10,928
Equity in subsidiaries	15,570	—	—	(15,570)	—
Net income	15,570	12,638	2,932	(15,570)	15,570
Preferred dividends	1,218	—	—	—	1,218
Net income to common shareholders	$14,352	$12,638	$2,932	$(15,570)	$14,352

(In thousands)	Three Months Ended September 30, 2014 M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated
Revenue	$—	$323,187	$7,580	$—	$330,767
Costs and expenses:					
Land and housing	—	261,636	—	—	261,636
Impairment of inventory and investment in unconsolidated joint ventures	—	622		—	622
General and administrative	—	17,811	3,913	—	21,724
Selling	—	21,955	—	—	21,955
Equity in income of unconsolidated joint ventures	—	—	(22)	—	(22)
Interest	—	2,248	401	—	2,649
Total costs and expenses	—	304,272	4,292	—	308,564
Income before income taxes	—	18,915	3,288	—	22,203
Provision for income taxes	—	7,428	1,158	—	8,586
Equity in subsidiaries	13,617	—	—	(13,617)	—

Net income	13,617	11,487	2,130	(13,617	) 13,617
Preferred dividends	1,218	—	—	—	1,218
Net income to common shareholders	$ 12,399	$ 11,487	$ 2,130	$ (13,617	) $ 12,399

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CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

(In thousands)	Nine Months Ended September 30, 2015 M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated
Revenue	$—	$923,164	$26,308	$—	$949,472
Costs and expenses:					
Land and housing	—	744,194	—	—	744,194
General and administrative	—	53,334	11,356	—	64,690
Selling	—	64,891	—	—	64,891
Equity in income of unconsolidated joint ventures	—	—	(248)	—	(248)
Interest	—	10,732	1,138	—	11,870
Total costs and expenses	—	873,151	12,246	—	885,397
Income before income taxes	—	50,013	14,062	—	64,075
Provision for income taxes	—	20,690	4,897	—	25,587
Equity in subsidiaries	38,488	—	—	(38,488)	—
Net income	38,488	29,323	9,165	(38,488)	38,488
Preferred dividends	3,656	—	—	—	3,656
Net income to common shareholders	$34,832	$29,323	$9,165	$(38,488)	$34,832

(In thousands)	Nine Months Ended September 30, 2014 M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated
Revenue	$—	$825,301	$21,915	$—	$847,216
Costs and expenses:					
Land and housing	—	666,817	—	—	666,817
Impairment of inventory and investment in unconsolidated joint ventures	—	1,426	—	—	1,426
General and administrative	—	51,159	10,161	—	61,320
Selling	—	58,175	—	—	58,175
Equity in income of unconsolidated joint ventures	—	—	(62)	—	(62)
Interest	—	8,530	1,019	—	9,549
Total costs and expenses	—	786,107	11,118	—	797,225
Income before income taxes	—	39,194	10,797	—	49,991
Provision for income taxes	—	5,991	4,197	—	10,188
Equity in subsidiaries	39,803	—	—	(39,803)	—

Net income	39,803	33,203	6,600	(39,803)	39,803
Preferred dividends	3,656	—	—	—	3,656
Net income to common shareholders	$36,147	$33,203	$6,600	$(39,803)	$36,147

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CONDENSED CONSOLIDATING BALANCE SHEET

	September 30, 2015				
(In thousands)	M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated
ASSETS:					
Cash and cash equivalents	$—	$7,870	$17,185	$—	$25,055
Restricted cash	—	3,071	—	—	3,071
Mortgage loans held for sale	—		77,550	—	77,550
Inventory	—	1,133,414	—	—	1,133,414
Property and equipment - net	—	11,567	274	—	11,841
Investment in unconsolidated joint ventures	—	12,066	21,216	—	33,282
Deferred income taxes, net of valuation allowances	—	70,880	63	—	70,943
Investment in subsidiaries	612,528	—	—	(612,528)	—
Intercompany assets	335,724	—	—	(335,724)	—
Other assets	7,605	29,156	14,085	—	50,846
TOTAL ASSETS	$955,857	$1,268,024	$130,373	$ (948,252)	$1,406,002
LIABILITIES AND SHAREHOLDERS' EQUITY					
LIABILITIES:					
Accounts payable	$—	$95,107	$843	$—	$95,950
Customer deposits	—	18,976	—	—	18,976
Intercompany liabilities	—	313,762	21,962	(335,724)	—
Other liabilities	—	76,876	7,064	—	83,940
Community development district obligations	—	1,159	—	—	1,159
Obligation for consolidated inventory not owned	—	11,418	—	—	11,418
Notes payable bank - homebuilding operations	—	156,100	—	—	156,100
Notes payable bank - financial services operations	—	—	73,239	—	73,239
Notes payable - other	—	9,363	—	—	9,363
Convertible senior subordinated notes due 2017	57,500	—	—	—	57,500
Convertible senior subordinated notes due 2018	86,250	—	—	—	86,250
Senior notes	228,769	—	—	—	228,769
TOTAL LIABILITIES	372,519	682,761	103,108	(335,724)	822,664
SHAREHOLDERS' EQUITY	583,338	585,263	27,265	(612,528)	583,338
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$955,857	$1,268,024	$130,373	$ (948,252)	$1,406,002

CONDENSED CONSOLIDATING BALANCE SHEET

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

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

(In thousands)	Nine Months Ended September 30, 2015 M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated
OPERATING ACTIVITIES:					
Net cash provided by (used in) operating activities	$2,428	$ (114,357)	$ 19,161	$ (2,428)	$ (95,196)
INVESTING ACTIVITIES:					
Restricted cash	—	3,615	—	—	3,615
Purchase of property and equipment	—	(1,939)	(64)	—	(2,003)
Intercompany investing	193	—	—	(193)	—
Investments in and advances to unconsolidated joint ventures	—	(2,728)	(7,997)	—	(10,725)
Net proceeds from the sale of mortgage servicing rights	—	—	3,065	—	3,065
Net cash provided by (used in) investing activities	193	(1,052)	(4,996)	(193)	(6,048)
FINANCING ACTIVITIES:					
Proceeds from bank borrowings - homebuilding operations	—	329,400	—	—	329,400
Principal repayments of bank borrowings - homebuilding operations	—	(203,300)	—	—	(203,300)
Net proceeds from bank borrowings - financial services operations	—	—	(12,140)	—	(12,140)
Principal proceeds from notes payable - other and CDD bond obligations	—	(155)	—	—	(155)
Proceeds from exercise of stock options	1,035	—	—	—	1,035
Intercompany financing	—	(6,158)	5,965	193	—
Dividends paid	(3,656)	—	(2,428)	2,428	(3,656)
Debt issue costs	—	(380)	(40)	—	(420)
Net cash (used in) provided by financing activities	(2,621)	119,407	(8,643)	2,621	110,764
Net increase in cash and cash equivalents	—	3,998	5,522	—	9,520
Cash and cash equivalents balance at beginning of period	—	3,872	11,663	—	15,535
Cash and cash equivalents balance at end of period	$—	$ 7,870	$ 17,185	$ —	$ 25,055

(In thousands)	Nine Months Ended September 30, 2014 M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated
OPERATING ACTIVITIES:					
Net cash provided by (used in) operating activities	$8,275	$ (124,022)	$ 17,311	$ (8,275)	$ (106,711)
INVESTING ACTIVITIES:					

Restricted cash	—	4,912	—	—	4,912
Purchase of property and equipment	—	(2,222)	(125)	—	(2,347)
Investments in and advances to unconsolidated joint ventures	—	(12,080)	(4,738)	—	(16,818)
Net proceeds from the sale of mortgage servicing rights	—	—	2,135	—	2,135
Return of capital from unconsolidated joint ventures	—	—	619	—	619
Net cash used in investing activities	—	(9,390)	(2,109)	—	(11,499)
FINANCING ACTIVITIES:					
Net repayments from bank borrowings - financial services operations	—	14,400	(6,251)	—	8,149
Principal repayments from notes payable - other and CDD bond obligations	—	740	—	—	740
Proceeds from exercise of stock options	1,460	—	—	—	1,460
Intercompany financing	(6,079)	8,676	(2,597)	—	—
Dividends paid	(3,656)	—	(8,275)	8,275	(3,656)
Debt issue costs	—	—	(40)	—	(40)
Net cash (used in) provided by financing activities	(8,275)	23,816	(17,163)	8,275	6,653
Net decrease in cash and cash equivalents	—	(109,596)	(1,961)	—	(111,557)
Cash and cash equivalents balance at beginning of period	—	113,407	15,318	—	128,725
Cash and cash equivalents balance at end of period	$—	$ 3,811	$ 13,357	$ —	$ 17,168

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

OVERVIEW

M/I Homes, Inc. (the "Company" or "we") is one of the nation's leading builders of single-family homes, having delivered over 93,000 homes since we commenced homebuilding activities in 1976. The Company's homes are marketed and sold under the M/I Homes and Showcase Collection (exclusively by M/I Homes) brands. The Company has homebuilding operations in Columbus and Cincinnati, Ohio; Indianapolis, Indiana; Chicago, Illinois; Tampa and Orlando, Florida; Austin, Dallas/Fort Worth, Houston and San Antonio, Texas; Charlotte and Raleigh, North Carolina; and the Virginia and Maryland suburbs of Washington, D.C.

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

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

FORWARD-LOOKING STATEMENTS

Certain information included in this report or in other materials we have filed or will file with the Securities and Exchange Commission (the "SEC") (as well as information included in oral statements or other written statements made or to be made by us) contains or may contain forward-looking statements, including, but not limited to, statements regarding our future financial performance and financial condition. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," and "estimates," variations of such words and similar expressions are intend to identify such forward-looking statements. These statements involve a number of risks and uncertainties. Any forward-looking statements that we make herein and in future reports and statements are not guarantees of future performance, and actual results may differ materially from those in such forward-looking statements as a result of various risk factors. Please see "Item 1A. Risk Factors" in Part I of our Annual Report on Form 10-K for the year ended December 31, 2014 (the "2014 Form 10-K") for more information regarding those risk factors.

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

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES AND POLICIES

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

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

RESULTS OF OPERATIONS

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

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

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

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

Overview

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

For the quarter ended September 30, 2015, we recorded net income to common shareholders of $14.4 million ($0.51 per diluted share) compared to net income to common shareholders of $12.4 million ($0.44 per diluted share) for the three months ended September 30, 2014. For the nine months ended September 30, 2015, we recorded net income to common shareholders of $34.8 million ($1.25 per diluted share) compared to net income to common shareholders of $36.1 million ($1.30 per diluted share) for the nine months ended September 30, 2014. Excluding a $9.3 million, or $0.31 per diluted share, benefit in 2014's first nine months from the reversal of our remaining state deferred tax valuation allowance, our net income to common shareholders and diluted earnings per share improved 29.7% and 26.3%, respectively, in the nine months ended September 30, 2015 compared to the same period in 2014.

Summary of Company Financial Results

During the quarter ended September 30, 2015, we recorded record high total revenue of $363.5 million, of which $346.6 million was from homes delivered, $7.6 million was from land sales and $9.3 million was from our financial services operations. Revenue from homes delivered increased 10% in 2015's third quarter compared to the same period in 2014 driven primarily by a 9% increase in the average sales price of homes delivered ($29,000 per home delivered). During the nine months ended September 30, 2015, we recorded record high total revenue of $949.5 million, of which $891.7 million was from homes delivered, $31.5 million was from land sales and $26.3 million was from our financial services operations. Revenue from homes delivered increased 10% in the nine months ended September 30, 2015 compared to the same period in 2014 driven primarily by a 10% increase in the average

sales price of homes delivered ($30,000 per home delivered). Revenue from land sales increased $15.6 million during 2015's first nine months primarily due to land sales in both our Southern and Mid-Atlantic regions compared to 2014 (as our homebuilding operations generate revenue from the sale of land in the normal course of operations). Revenue in our financial services segment

increased 22% to $9.3 million and 20% to $26.3 million in the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014 due to the factors discussed below in our “Year Over Year Comparison” section.
Total gross margin increased $9.5 million in the third quarter of 2015 compared to the third quarter of 2014 as a result of a $7.8 million improvement in the gross margin of our homebuilding operations and a $1.7 million improvement in the gross margin of our financial services operations. The improvement in the gross margin of our homebuilding operations was primarily due to a $7.9 million improvement in housing gross margin compared to 2014's third quarter. The increase in housing gross margin resulted primarily from the 9% increase in the average sales price of homes delivered ($29,000 per home delivered). For the nine months ended September 30, 2015, total gross margin increased $26.3 million compared to the nine months ended September 30, 2014 as a result of a $21.9 million improvement in the gross margin of our homebuilding operations and a $4.4 million improvement in the gross margin of our financial services operations. The improvement in the gross margin of our homebuilding operations during the nine months ended September 30, 2015 was primarily due to a $18.3 million improvement in housing gross margin compared to 2014's first nine months and a $3.6 million improvement in gross margin from strategic land sales made during the first quarter of 2015. The increase in housing gross margin resulted primarily from the 10% increase in the average sales price of homes delivered ($30,000 per home delivered). We believe the increased sales prices during the three and nine months ended September 30, 2015 were driven primarily by better pricing leverage in select locations and submarkets and shifts in both product and community mix. We sell a variety of home types in various communities and markets, each of which yields a different gross margin. As a result, housing gross margin may fluctuate up or down depending on the mix of communities delivering homes. The pricing improvements were partially offset by higher average lot and construction costs related to cost increases associated with homebuilding industry conditions and normal supply and demand dynamics. During the three and nine months ended September 30, 2015 and 2014, we were able to pass a majority of the higher construction costs to our homebuyers in the form of higher sales prices. However, we cannot provide any assurance that our ability to pass such cost increases to our homebuyers through higher sales prices will continue.
For the three months ended September 30, 2015, selling, general and administrative expense increased $4.2 million, which partially offset the increase in our gross margin discussed above, but remained flat as a percentage of revenue at 13.2% in the third quarter of 2015 and the third quarter of 2014. Selling expense increased $2.3 million from 2014's third quarter and increased slightly as a percentage of revenue to 6.7% in 2015's third quarter compared to 6.6% for the same period in 2014. Variable selling expense for sales commissions contributed $2.0 million to the increase due to the higher average sales price. The increase in selling expense was also attributable to a $0.3 million increase in non-variable selling expense primarily related to start-up costs associated with our sales offices and models in our Austin and Dallas/Fort Worth markets as a result of our increased community count. General and administrative expense increased $1.9 million the third quarter of 2014 but improved slightly as a percentage of revenue from 6.6% in the third quarter of 2014 to 6.5% in the same period in 2015. This dollar increase was primarily due to a $1.1 million increase in compensation expense, a $0.4 million increase associated with our Austin and Dallas/Fort Worth markets, and $0.4 million increase in land related expenses.
For the nine months ended September 30, 2015, selling, general and administrative expense increased $10.1 million but improved as a percentage of revenue to 13.6% in the nine months ended September 30, 2015 compared to 14.1% in the 2014's first nine months. Selling expense increased $6.7 million to $64.9 million from $58.2 million in 2014's first nine months but improved slightly as a percentage of revenue to 6.8% in 2015's first nine months compared to 6.9% for the same period in 2014. Variable selling expense for sales commissions contributed $4.4 million to the increase due to the higher average sales price. The increase in selling expense was also attributable to a $2.3 million increase in non-variable selling expense related to expenses associated with our sales offices and models, $1.3 million of which related to start-up costs associated with our sales offices and models in our Austin and Dallas/Fort Worth markets. General and administrative expense increased $3.4 million, from $61.3 million in the nine months ended September 30, 2014 to $64.7 million in 2015's first nine months but improved as a percentage of revenue from 7.2% in the nine months ended September 30, 2014 to 6.8% in 2015's first nine months. This dollar increase was primarily due to a $1.1 million increase associated with our Austin and Dallas/Fort Worth markets, a $1.3 million increase in

equity and variable incentive compensation expense, a $0.4 million increase in expenses related to mortgage loans sold, and a $0.6 million increase in real estate tax expense compared to prior year. We continue to focus on controlling our selling, general and administrative expense.

Outlook

We believe that low interest rates and improved consumer confidence, employment levels and mortgage availability will continue to support a modestly higher level of demand in the housing market through the remainder of 2015 and into 2016. We remain focused on increasing our profitability by generating additional revenue and improving overhead operating leverage, continuing to expand our market share, and investing in attractive land and/or new market opportunities.

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

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

Consistent with these objectives, we took a number of steps during the nine months ended September 30, 2015 to position the Company for continued improvement through the remainder of 2015 and beyond, including investing $177.5 million in land acquisitions and $145.4 million in land development to help grow our presence in our existing markets. We currently estimate that we will spend approximately $425 million to $450 million on land purchases and land development in 2015. However, given varying results in each of our local markets, we will continue to adjust our strategies and investments based on housing demand and our performance in each of our markets. We opened 42 communities and closed 26 communities in the nine months ended September 30, 2015, ending 2015's first nine months with a total of 166 communities.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2015	2014	2015	2014
Revenue:				
Midwest homebuilding	$128,121	$118,319	$331,479	$283,472
Southern homebuilding	137,185	118,150	341,139	299,472
Mid-Atlantic homebuilding	88,875	86,718	250,546	242,357
Financial services (a)	9,276	7,580	26,308	21,915
Total revenue	$363,457	$330,767	$949,472	$847,216
Gross margin:				
Midwest homebuilding	$25,170	$22,848	$64,728	$54,627
Southern homebuilding	28,025	22,563	68,716	57,959
Mid-Atlantic homebuilding	15,570	15,518	45,526	44,472
Financial services (a)	9,276	7,580	26,308	21,915
Total gross margin	$78,041	$68,509	$205,278	$178,973
Selling, general and administrative expense:				
Midwest homebuilding	$11,659	$10,046	$31,202	$27,856
Southern homebuilding	14,165	12,348	38,295	33,218
Mid-Atlantic homebuilding	9,220	9,007	26,150	25,584
Financial services (a)	4,420	3,776	10,883	9,711
Corporate	8,457	8,502	23,051	23,126
Total selling, general and administrative expense	$47,921	$43,679	$129,581	$119,495
Operating income (loss):				
Midwest homebuilding	$13,511	$12,802	$33,526	$26,771
Southern homebuilding	13,860	10,215	30,421	24,741
Mid-Atlantic homebuilding	6,350	6,511	19,376	18,888
Financial services (a)	4,856	3,804	15,425	12,204
Corporate	(8,457)	(8,502)	(23,051)	(23,126)
Total operating income	$30,120	$24,830	$75,697	$59,478
Interest expense:				
Midwest homebuilding	$649	$450	$2,536	$2,211
Southern homebuilding	1,649	968	5,185	3,927
Mid-Atlantic homebuilding	948	829	3,011	2,392
Financial services (a)	412	402	1,138	1,019
Total interest expense	$3,658	$2,649	$11,870	$9,549
Equity in income of unconsolidated joint ventures	(36)	(22)	(248)	(62)
Income before income taxes	$26,498	$22,203	$64,075	$49,991

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

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

	At September 30, 2015				
(In thousands)	Midwest	Southern	Mid-Atlantic	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	$3,092	$14,940	$ 3,962	$—	$21,994
Inventory (a)	366,677	423,588	321,155	—	1,111,420
Investments in unconsolidated joint ventures	5,783	27,499	—	—	33,282
Other assets	10,208	29,001	8,081	192,016	239,306
Total assets	$385,760	$495,028	$ 333,198	$192,016	$1,406,002

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

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

Reportable Segments

The following table presents, by reportable segment, selected operating and financial information as of and for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2015	2014	2015	2014
Midwest Region				
Homes delivered	363	381	962	931
New contracts, net	341	325	1,158	1,093
Backlog at end of period	701	707	701	707
Average sales price of homes delivered	$350	$307	$341	$300
Average sales price of homes in backlog	$378	$336	$378	$336
Aggregate sales value of homes in backlog	$265,078	$237,407	$265,078	$237,407
Revenue homes	$127,172	$117,113	$328,506	$278,974
Revenue third party land sales	$949	$1,206	$2,973	$4,498
Operating income homes	$13,307	$12,456	$32,798	$25,427
Operating income land	$204	$346	$728	$1,344
Number of average active communities	65	61	64	64
Number of active communities, end of period	67	62	67	62
Southern Region				
Homes delivered	377	344	964	949
New contracts, net	399	327	1,220	1,026
Backlog at end of period	706	526	706	526
Average sales price of homes delivered	$348	$328	$333	$307
Average sales price of homes in backlog	$363	$323	$363	$323
Aggregate sales value of homes in backlog	$255,995	$169,676	$255,995	$169,676
Revenue homes	$131,265	$112,673	$321,085	$291,785
Revenue third party land sales	$5,920	$5,477	$20,054	$7,687
Operating income homes	$13,157	$9,905	$26,613	$24,284
Operating income land	$703	$310	$3,808	$457
Number of average active communities	61	50	56	51
Number of active communities, end of period	62	51	62	51
Mid-Atlantic Region				
Homes delivered	254	260	704	736
New contracts, net	248	240	818	771
Backlog at end of period	381	321	381	321
Average sales price of homes delivered	$347	$329	$344	$324
Average sales price of homes in backlog	$357	$346	$357	$346
Aggregate sales value of homes in backlog	$135,843	$111,003	$135,843	$111,003
Revenue homes	$88,125	$85,571	$242,083	$238,682
Revenue third party land sales	$750	$1,147	$8,463	$3,675
Operating income homes	$6,352	$6,145	$17,548	$17,904
Operating income land	$(2)	$366	$1,828	$984
Number of average active communities	35	35	35	37
Number of active communities, end of period	37	34	37	34
Total Homebuilding Regions				
Homes delivered	994	985	2,630	2,616
New contracts, net	988	892	3,196	2,890
Backlog at end of period	1,788	1,554	1,788	1,554

Average sales price of homes delivered	$349	$320	$339	$309
Average sales price of homes in backlog	$367	$333	$367	$333
Aggregate sales value of homes in backlog	$656,917	$518,086	$656,917	$518,086
Revenue homes	$346,562	$315,357	$891,674	$809,441
Revenue third party land sales	$7,619	$7,830	$31,490	$15,860
Operating income homes	$32,816	$28,506	$76,959	$67,615
Operating income land	$905	$1,022	$6,364	$2,785
Number of average active communities	161	146	155	152
Number of active communities, end of period	166	147	166	147

(Dollars in thousands)	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Financial Services				
Number of loans originated	713	701	1,947	1,801
Value of loans originated	$203,700	$188,821	$537,385	$470,345
Revenue	$9,276	$7,580	$26,308	$21,915
Less: Selling, general and administrative expense	4,420	3,776	10,883	9,711
Interest expense	412	402	1,138	1,019
Income before income taxes	$4,444	$3,402	$14,287	$11,185

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

The composition of our homes delivered, new contracts, net and backlog is constantly changing and may be based on a dissimilar mix of communities between periods as new communities open and existing communities wind down. Further, home types and individual homes within a community can range significantly in price due to differing square footage, option selections, lot sizes and quality and location of lots. These variations may result in a lack of meaningful comparability between homes delivered, new contracts, net and backlog due to the changing mix between periods.

Cancellation Rates

The following table sets forth the cancellation rates for each of our homebuilding segments for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30, 2015		2014		Nine Months Ended September 30, 2015		2014	
Midwest	17.0	%	19.0	%	15.8	%	17.1	%
Southern	17.7	%	17.4	%	15.3	%	18.4	%
Mid-Atlantic	12.4	%	10.1	%	11.5	%	9.4	%
Total cancellation rate	16.2	%	16.2	%	14.5	%	15.7	%

Seasonality

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

Year Over Year Comparison

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

Midwest Region. During the three months ended September 30, 2015, homebuilding revenue in our Midwest region increased $9.8 million, from $118.3 million in the third quarter of 2014 to $128.1 million in the third quarter of 2015. This 8% increase in homebuilding revenue was the result of a 14% increase in the average sales price of homes delivered ($43,000 per home delivered), offset partially by a 5% decrease in the number of homes delivered (18 units) and a $0.3 million decrease in land sale revenue. Operating income in our Midwest region increased $0.7 million,

from $12.8 million during the third quarter of 2014 to $13.5 million during the three months ended September 30, 2015. The increase in operating income was primarily the result of a $2.3 million increase in our gross margin, offset, in part, by a $1.7 million increase in selling, general, and administrative expense. Our Midwest region experienced a gross margin percentage of 19.6% for the third quarter of 2015 -- a 30 basis point improvement when compared to 19.3% for the same period in 2014. This improvement in our gross margin percentage was primarily reflective of the improvement in the average sales price of homes delivered described above, partially offset by a $0.1 million decrease in profit from land sales compared to the third quarter of 2014 as well as higher lot and construction costs related to cost increases in labor and materials.

Selling, general and administrative expense increased $1.7 million, from $10.0 million for the quarter ended September 30, 2014 to $11.7 million for the quarter ended September 30, 2015 and increased as a percentage of revenue to 9.1% compared to 8.5% for the same period in 2014. The increase in selling, general and administrative expense was attributable, in part, to a $0.3 million increase in variable selling expenses resulting from increases in sales commissions produced by the higher average sales price of homes delivered. The increase in selling, general and administrative expense was also attributable to a $1.4 million increase in general and administrative expense, which was primarily related to a $0.7 million increase in compensation expense and a $0.4 million increase in real estate tax expense compared to prior year.

During the three months ended September 30, 2015, we experienced a 5% increase in new contracts in our Midwest region, from 325 in the third quarter of 2014 to 341 in the third quarter of 2015. Average sales price in backlog increased to $378,000 at September 30, 2015 compared to $336,000 at September 30, 2014 due to higher-end product offerings and improving sub-market conditions. However, homes in backlog decreased slightly by 1% from 707 homes at September 30, 2014 to 701 homes at September 30, 2015. During the three months ended September 30, 2015, we opened six communities in our Midwest region compared to four during 2014's third quarter. Our monthly absorption rate in our Midwest region was 1.8 per community in the third quarter of 2015, the same as in the third quarter of 2014.

Southern Region. During the three months ended September 30, 2015, homebuilding revenue in our Southern region increased $19.0 million, from $118.2 million in the third quarter of 2014 to $137.2 million in the third quarter of 2015. This 16% increase in homebuilding revenue was the result of a 10% increase in the number of homes delivered (33 units), a 6% increase in the average sales price of homes delivered ($20,000 per home delivered), and a $0.4 million increase in land sale revenue. Operating income in our Southern region increased $3.7 million from $10.2 million in the third quarter of 2014 to $13.9 million during the quarter ended September 30, 2015 as a result of a $5.5 million improvement in our gross margin during the quarter ended September 30, 2015 offset, in part, by a $1.9 million increase in selling, general, and administrative expense. Our Southern region experienced a gross margin percentage of 20.4% for the third quarter of 2015 -- a 130 basis point improvement when compared to 19.1% for the same period in 2014. This improvement in our gross margin percentage was primarily reflective of the revenue improvements described above and a $0.4 million increase in profit from land sales during the quarter, partially offset by higher lot and construction costs related to both the mix of homes delivered and cost increases in labor and materials.

Selling, general and administrative expense increased $1.9 million from $12.3 million in the third quarter of 2014 to $14.2 million in the third quarter of 2015 but declined as a percentage of revenue to 10.3% for the three months ended September 30, 2015 from 10.5% for the third quarter of 2014. The increase in selling, general and administrative expense was attributable, in part, to a $1.6 million increase in selling expense due to (1) a $1.3 million increase in variable selling expenses resulting from increases in sales commissions from the higher average sales price of homes delivered, primarily associated with our Austin and Dallas/Fort Worth markets, and (2) a $0.3 million increase in non-variable selling expenses primarily related to start-up costs associated with our sales offices and models as a result of our increased community count. The increase in selling, general and administrative expense was also attributable to a $0.3 million increase in general and administrative expense, which was primarily related to expenses associated with our Austin and Dallas/Fort Worth divisions.

During the three months ended September 30, 2015, we experienced a 22% increase in new contracts in our Southern region, from 327 in the third quarter of 2014 to 399 for the third quarter of 2015, and a 34% increase in backlog from 526 homes at September 30, 2014 to 706 homes at September 30, 2015. Average sales price in backlog increased to $363,000 at September 30, 2015 from $323,000 at September 30, 2014 due to favorable shifts in product type and market mix. The increases in new contracts and backlog were primarily due to growth in our Texas operations as well as improving conditions in our Florida markets. During the three months ended September 30, 2015, we opened three communities in our Southern region compared to seven during 2014's third quarter. Our monthly absorption rate in our Southern region was 2.2 per community in the third quarter of 2015, the same as in the third quarter of 2014.

Mid-Atlantic Region. During the three month period ended September 30, 2015, homebuilding revenue in our Mid-Atlantic region increased $2.2 million from $86.7 million in the third quarter of 2014 to $88.9 million in the third quarter of 2015. This 2% increase in homebuilding revenue was the result of a 5% increase in the average sales price

of homes delivered ($18,000 per home delivered), offset, in part, by a 2% decrease in the number of homes delivered (6 units) as well as a $0.4 million decrease in land sale revenue compared to prior year. Operating income in our Mid-Atlantic region decreased $0.1 million, from $6.5 million in the third quarter of 2014 to $6.4 million during the quarter ended September 30, 2015. This decline in operating income was the result of a $0.2 million increase in selling, general and administrative expense offset partially by a $0.1 million increase in our gross margin. Our Mid-Atlantic region experienced a gross margin percentage of 17.5% during the quarter ended September 30, 2015 -- a 40 basis point decline when compared to 17.9% for the quarter ended September 30, 2014. These declines in operating income and gross margin percentage were primarily due to a $0.4 million decrease in profit from land sales during 2015's third quarter compared to prior year's third quarter, in addition to the higher lot and construction costs related to cost increases in labor and materials.

Selling, general and administrative expense increased $0.2 million from $9.0 million in the third quarter of 2014 to $9.2 million in the third quarter of 2015 but remained flat as a percentage of revenue at 10.4% for both the third quarter of 2015 and 2014. The slight increase in selling, general and administrative expense was primarily due to an increase in variable selling expenses resulting from increases in sales commissions from the higher average sales price of homes delivered.

During the three months ended September 30, 2015, we experienced a 3% increase in new contracts in our Mid-Atlantic region, from 240 in the third quarter of 2014 to 248 in the third quarter of 2015. Average sales price of homes in backlog increased from $346,000 at September 30, 2014 to $357,000 at September 30, 2015, and the number of homes in backlog increased 19% from 321 homes at September 30, 2014 to 381 homes at September 30, 2015. These improvements in new contracts and backlog were attributable to increased absorption rates and improved demand in the third quarter of 2015 compared to prior year. We opened five communities in our Mid-Atlantic region during the third quarter of 2015 compared to four during the third quarter of 2014. Our monthly absorption rate in our Mid-Atlantic region increased to 2.4 per community in the third quarter of 2015 from 2.3 per community in the third quarter of 2014.

Financial Services. Revenue from our mortgage and title operations increased $1.7 million (22%) from $7.6 million in the third quarter of 2014 to $9.3 million in the third quarter of 2015 as a result of a 2% increase in the number of loan originations, from 701 in the third quarter of 2014 to 713 in the third quarter of 2015 and a 6% increase in the average loan amount from $269,000 in the quarter ended September 30, 2014 to $286,000 in the quarter ended September 30, 2015. In addition, we experienced higher margins on our loans sold and servicing retained transactions as supply and demand factors were more favorable than we experienced in 2014's third quarter.

We ended our third quarter of 2015 with a $1.1 million increase in operating income compared to 2014's third quarter, which was primarily due to the increase in our revenue discussed above, offset, in part, by a $0.6 million increase in selling, general and administrative expense compared to the third quarter of 2014, which was attributable primarily to an increase in compensation expense.

At September 30, 2015, M/I Financial provided financing services in all of our markets. Approximately 80% of our homes delivered during the third quarter of 2015 were financed through M/I Financial, compared to 81% in the same period in 2014. Capture rate is influenced by financing availability and can fluctuate from quarter to quarter.

Corporate Selling, General and Administrative Expense. Corporate selling, general and administrative expense remained flat at$8.5 million for both the third quarter of 2015 and 2014.

Interest Expense - Net. Interest expense for the Company increased $1.1 million, from $2.6 million in the three months ended September 30, 2014 to $3.7 million in the three months ended September 30, 2015. This increase was primarily the result of an increase in our weighted average borrowings from $441.1 million in 2014's third quarter to $570.0 million in 2015's third quarter primarily related to the increased borrowing under our Credit Facility. Partially offsetting this increase was a decline in our weighted average borrowing rate from 7.03% in the third quarter of 2014 to 6.03% for third quarter of 2015.

Income Taxes. Our overall effective tax rate was 41.2% for the three months ended September 30, 2015 and 38.7% for the same period in 2014. The higher effective rate for the three months ended September 30, 2015 was primarily attributable to the tax impact of state rate changes that occurred during the quarter.

Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

Midwest Region. During the nine months ended September 30, 2015, homebuilding revenue in our Midwest region increased $48.0 million, from $283.5 million for the nine months ended September 30, 2014 to $331.5 million in the nine months ended September 30, 2015. This 17% increase in homebuilding revenue was the result of a 14% increase in the average sales price of homes delivered ($41,000 per home delivered) and a 3% increase in the number of homes delivered (31 units), offset, in part, by a $1.5 million decrease in land sale revenue. Operating income in our Midwest region increased $6.7 million, from $26.8 million during the nine months ended September 30, 2014 to $33.5 million during the nine months ended September 30, 2015. The increase in operating income was primarily the result of a $10.1 million increase in our gross margin, offset, in part, by a $3.3 million increase in selling, general, and administrative expense. Our Midwest region experienced a gross margin percentage of 19.5% for the first nine months

of 2015 -- a 20 basis point improvement when compared to 19.3% for the same period in 2014. This improvement in our gross margin percentage was primarily reflective of the revenue improvements described above, partially offset by a $0.6 million decrease in profit from land sales compared to the nine months ended September 30, 2014, as well as higher lot and construction costs related to cost increases in labor and materials.

Selling, general and administrative expense increased $3.3 million, from $27.9 million for the nine months ended September 30, 2014 to $31.2 million for the nine months ended September 30, 2015, but declined as a percentage of revenue to 9.4% compared

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to 9.8% for the same period in 2014. The increase in selling, general and administrative expense was attributable, in part, to a $1.7 million increase in variable selling expenses resulting from increases in sales commissions produced by the higher average sales price of homes delivered. The increase in selling, general and administrative expense was also attributable to a $1.6 million increase in general and administrative expense, which was primarily due to a $0.9 million increase in incentive compensation and a $0.3 million increase in real estate tax expense, as well as other miscellaneous cost increases.

During the nine months ended September 30, 2015, we experienced a 6% increase in new contracts in our Midwest region, from 1,093 in the nine months ended September 30, 2014 to 1,158 in the nine months ended September 30, 2015. Average sales price in backlog increased to $378,000 at September 30, 2015 compared to $336,000 at September 30, 2014 due to higher-end product offerings and improving sub-market conditions. However, homes in backlog decreased slightly by 1% from 707 homes at September 30, 2014 to 701 homes at September 30, 2015. During the nine months ended September 30, 2015, we opened 13 communities in our Midwest region compared to 10 during 2014's first nine months. Our monthly absorption rate in our Midwest region increased to 2.0 per community for 2015's first nine months, compared to 1.9 per community for 2014's first nine months.

Southern Region. During the nine months ended September 30, 2015, homebuilding revenue in our Southern region increased $41.6 million, from $299.5 million in the nine months ended September 30, 2014 to $341.1 million in the nine months ended September 30, 2015. This 14% increase in homebuilding revenue was the result of an 8% increase in the average sales price of homes delivered ($26,000 per home delivered), a 2% increase in the number of homes delivered (15 units), and a $12.4 million increase in land sale revenue. Operating income in our Southern region increased $5.7 million, from $24.7 million in 2014's first nine months to $30.4 million during 2015's first nine months. The increase in operating income was primarily the result of a $10.8 million increase in our gross margin during the nine months ended September 30, 2015, offset, in part, by a $5.1 million increase in selling, general, and administrative expense. Our Southern region experienced a gross margin percentage of 20.1% for the nine months ended September 30, 2015 -- a 70 basis point improvement when compared to 19.4% for the nine months ended September 30, 2014. This improvement in our gross margin percentage was primarily reflective of the increase in the average sales price of homes delivered described above and a $3.4 million increase in profit from land sales during the quarter, partially offset by higher lot and construction costs related to both the mix of homes delivered and cost increases in labor and materials.

Selling, general and administrative expense increased $5.1 million from $33.2 million in the nine months ended September 30, 2014 to $38.3 million in the nine months ended September 30, 2015 and increased slightly as a percentage of revenue to 11.2% for the nine months ended September 30, 2015 from 11.1% for the same period in 2014. The increase in selling, general and administrative expense was attributable, in part, to a $3.9 million increase in selling expense due to (1) a $2.0 million increase in variable selling expenses resulting from increases in sales commissions from the higher average sales price of homes delivered, primarily associated with our Austin and Dallas/Fort Worth markets, and (2) a $1.9 million increase in non-variable selling expenses primarily related to start-up costs associated with our sales offices and models as a result of our increased community count. The increase in selling, general and administrative expense was also attributable to a $1.2 million increase in general and administrative expense, which was primarily due to expenses associated with our Austin and Dallas/Fort Worth divisions.

During the nine month period ended September 30, 2015, we experienced a 19% increase in new contracts in our Southern region, from 1,026 in 2014's first nine months to 1,220 in 2015's first nine months, and a 34% increase in backlog from 526 homes at September 30, 2014 to 706 homes at September 30, 2015. Average sales price in backlog increased to $363,000 at September 30, 2015 from $323,000 at September 30, 2014 due to favorable shifts in product type and market mix. The increases in new contracts and backlog were primarily due to growth in our Texas operations as well as improvements in our Florida markets. During the nine months ended September 30, 2015, we opened 18 communities in our Southern region compared to 15 during 2014's first nine months. Our monthly absorption rate in our Southern region increased to 2.4 per community in the nine months ended September 30, 2015, compared to 2.2 per community in the nine months ended September 30, 2014.

Mid-Atlantic Region. During the nine months ended September 30, 2015, homebuilding revenue in our Mid-Atlantic region increased $8.1 million from $242.4 million in the nine months ended September 30, 2014 to $250.5 million in the nine months ended September 30, 2015. This 3% increase in homebuilding revenue was the result of a 6% increase in the average sales price of homes delivered ($20,000 per home delivered) and a $4.8 million increase in land sale revenue, offset, in part, by a 4% decrease in the number of homes delivered (32 units). Operating income in our Mid-Atlantic region increased $0.5 million, from $18.9 million in 2014's first nine months to $19.4 million during 2015's first nine months. The increase in operating income was primarily the result of a $1.1 million increase in our gross margin during the nine months ended September 30, 2015, offset, in part, by a $0.6 million increase in selling, general, and administrative expense. Gross margin percentage declined slightly by 10 basis points to 18.2% compared to 18.3% for 2014's first nine months in our Mid-Atlantic region. This decline in gross margin percentage resulted from higher lot and construction costs related to cost increases in labor and materials associated with housing market conditions, market mix, and shifts in product type, offset, in part, by a $0.8 million increase in profit from land sales during the period.

Selling, general and administrative expense increased $0.6 million from $25.6 million in the nine months ended September 30, 2014 to $26.2 million in the nine months ended September 30, 2015 but declined as a percentage of revenue from 10.6% to 10.4%. The increase in selling, general and administrative expense was attributable, in part, to a $1.2 million increase in selling expense due to (1) a $0.6 million increase in variable selling expenses resulting from increases in sales commissions from the higher average sales price of homes delivered and (2) a $0.6 million increase in non-variable selling expenses primarily related to costs associated with our sales offices and models as a result of our increased community count. The increase in selling, general and administrative expense was partially offset by a $0.6 million decrease in general and administrative expense, which was primarily due to land related charges in prior year and a decrease in incentive compensation.

During the nine month period ended September 30, 2015, we experienced a 6% increase in new contracts in our Mid-Atlantic region, from 771 in the nine months ended September 30, 2014 to 818 in the nine months ended September 30, 2015. Average sales price of homes in backlog increased from $346,000 at September 30, 2014 to $357,000 at September 30, 2015, and the number of homes in backlog increased 19% from 321 homes at September 30, 2014 to 381 homes at September 30, 2015. These improvements in new contracts and backlog were attributable to increased absorption rates and improved demand. We opened 11 communities in our Mid-Atlantic region during 2015's first nine months compared to 12 during 2014's first nine months. Our monthly absorption rate in our Mid-Atlantic region increased to 2.6 per community in the first nine months of 2015 from 2.4 per community in the first nine months of 2014.

Financial Services. Revenue from our mortgage and title operations increased $4.4 million (20%) from $21.9 million in the nine months ended September 30, 2014 to $26.3 million in the nine months ended September 30, 2015 as a result of an 8% increase in the number of loan originations, from 1,801 in the nine months ended September 30, 2014 to 1,947 in the nine months ended September 30, 2015, and a 6% increase in the average loan amount from $261,000 in the nine months ended September 30, 2014 to $276,000 in the nine months ended September 30, 2015.

We ended the first nine months of 2015 with a $3.2 million increase in operating income compared to the nine months ended September 30, 2014, which was primarily due to the increase in our revenue discussed above offset partially by a $1.2 million increase in selling, general and administrative expense compared to 2014's first nine months, which was attributable to a $0.5 million increase in compensation expense, a $0.4 million increase in expenses related to mortgage loans sold, and a $0.3 million increase in compensation expense as a result of staffing our newer Texas markets.

At September 30, 2015, M/I Financial provided financing services in all of our markets. Approximately 80% of our homes delivered during the nine months ended September 30, 2015 were financed through M/I Financial, compared to 78% in the same period in 2014. Capture rate is influenced by financing availability and can fluctuate from quarter to quarter.

Corporate Selling, General and Administrative Expense. Corporate selling, general and administrative expense decreased slightly by $0.1 million from $23.1 million for the nine months ended September 30, 2014 to $23.0 million for the nine months ended September 30, 2015.

Interest Expense - Net. Interest expense for the Company increased $2.4 million, from $9.5 million in the nine months ended September 30, 2014 to $11.9 million in the nine months ended September 30, 2015. This increase was primarily the result of an increase in our weighted average borrowings from $416.5 million in nine months ended September 30, 2014 to $535.9 million in nine months ended September 30, 2015 primarily related to the increased borrowing under our Credit Facility. Partially offsetting this increase was a decline in our weighted average borrowing rate from 7.23% in the nine months ended September 30, 2014 to 6.26% for 2015's first nine months.

Earnings from Unconsolidated Joint Ventures. Earnings from unconsolidated joint ventures represent our portion of pre-tax earnings from our joint ownership and development agreements, joint ventures and other similar arrangements. During the nine months ended September 30, 2015 and 2014, the Company earned $0.2 million and less than $0.1 million in equity in income from unconsolidated joint ventures, respectively.

Income Taxes. Our overall effective tax rate was 39.9% for the nine months ended September 30, 2015 and 20.4% for the same period in 2014. The lower effective rate for the nine months ended September 30, 2014 was attributable to the effects of the deferred tax asset valuation allowance and federal and state tax NOLs, and there is no correlation between the effective tax rate and the amount of pre-tax income for the period.

LIQUIDITY AND CAPITAL RESOURCES

Overview of Capital Resources and Liquidity.

At September 30, 2015, we had $28.1 million of cash, cash equivalents and restricted cash, with $25.1 million of this amount comprised of unrestricted cash and cash equivalents, which represents a $9.5 million increase in unrestricted cash and cash equivalents from December 31, 2014. This increase was primarily a result of our increased borrowings under our Credit Facility during the nine months ended September 30, 2015, which exceeded our increased investment in inventory. Our principal uses of cash for the nine months ended September 30, 2015 were investment in land and land development, construction of homes, mortgage loan originations, investment in joint ventures, operating expenses, and short-term working capital and debt service requirements, including the repayment of amounts outstanding under our credit lines. In order to fund these uses of cash, we used proceeds from home deliveries and the sale of mortgage loans, as well as excess cash balances, borrowings under our credit facilities, and other sources of liquidity.

We are actively acquiring and developing lots in our markets to replenish and grow our lot supply and active community count. As was the case in 2014 and in the first nine months of 2015, our cash outlays for land purchases, land development, home construction and operating expenses exceeded our cash generated by operations. We expect to continue to utilize our Credit Facility throughout the remainder of 2015, subject to the effect of any capital markets transactions or other additional financings by the Company and any repayments or redemptions of outstanding debt.

During the nine months ended September 30, 2015, we delivered 2,630 homes, started 3,166 homes, and spent $177.5 million on land purchases and $145.4 million on land development. Based upon our business activity levels, market conditions, and opportunities for land in our markets, we currently estimate that we will spend approximately $425 million to $450 million on land purchases and land development during 2015, including the $322.9 million spent during the nine months ended September 30, 2015.

We also continue to enter into land option agreements, taking into consideration current and projected market conditions, to secure land for the construction of homes in the future. Pursuant to these land option agreements, as of September 30, 2015, we had purchase agreements to acquire $495.2 million of land and lots during the remainder of 2015 through 2021.

Land transactions are subject to a number of factors, including our financial condition and market conditions, as well as satisfaction of various conditions related to specific properties. We will continue to monitor market conditions and our ongoing pace of home deliveries and adjust our land spending accordingly. The planned increase in our land spending in 2015 compared to 2014 is driven primarily by the growth of our business. In addition, a larger portion of our land investment may continue to shift from developed lot purchases to acquisition and development of undeveloped land, which would result in increased inventory levels.

Operating Cash Flow Activities. During the nine month period ended September 30, 2015, we used $95.2 million of cash in operating activities, compared to $106.7 million of cash used in operating activities during the nine months ended September 30, 2014. Operating cash flows in the first nine months of 2015 and 2014 benefited from cash generated by the $38.5 million and $39.8 million in net earnings, respectively, offset mainly by the respective increases in inventory of $203.1 million and $196.1 million due to increased investment in land, houses under construction, and model homes. In addition, operating cash flows in the first nine months of 2015 and 2014 benefited from changes in deferred income tax expense of $23.5 million and $17.3 million, respectively, and from increases in accounts payable of $20.6 million and $27.6 million, respectively.

Investing Cash Flow Activities. During the nine months ended September 30, 2015, we used $6.0 million of cash in investing activities, compared to using $11.5 million of cash in investing activities during the nine months ended September 30, 2014. This $5.5 million decrease in cash usage was primarily due to reducing the amount of the increase in our investment in our unconsolidated joint ventures by $6.1 million and the $0.9 million increase in cash provided by the sale of mortgage servicing rights during the nine months ended September 30, 2015 compared to 2014's first nine months, offset, in part, by the $1.3 million decrease in the change in restricted cash.

Financing Cash Flow Activities. During the nine months ended September 30, 2015, we generated $110.8 million of cash from financing activities, compared to generating $6.7 million of cash during the nine months ended September 30, 2014. The $104.1 million increase in cash generated from financing activities was due to increased borrowings under our Credit Facility.

At September 30, 2015 and December 31, 2014, our ratio of net debt to net capital was 50% and 47%, respectively, calculated as total debt minus total cash, cash equivalents and restricted cash, divided by the sum of total debt minus total cash, cash equivalents and restricted cash plus shareholders' equity. The increase compared to December 31, 2014 was due to higher debt levels at September 30, 2015. We believe that this ratio provides useful information regarding our financial position, for understanding the leverage employed in our operations and for comparing us with other homebuilders.

We fund our operations with cash flows from operating activities, including proceeds from home deliveries, land sales and the sale of mortgage loans. We believe that these sources of cash, along with our balance of unrestricted cash and borrowings available under our credit facilities, will be sufficient to fund our currently anticipated working capital needs, investment in land and land development, construction of homes, operating expenses, planned capital spending, and debt service requirements for at least the next twelve months. In addition, we routinely monitor current operational requirements, financial market conditions, and credit relationships and we may choose to seek additional capital by issuing new debt and/or equity securities to strengthen our liquidity or our long-term capital structure. The financing needs of our homebuilding and financial services operations depend on anticipated sales volume in the current year as well as future years, inventory levels and related turnover, forecasted land and lot purchases, debt maturity dates, and other factors. If we seek such additional capital, there can be no assurance that we would be able to obtain such additional capital on terms acceptable to us, if at all, and such additional equity or debt financing could dilute the interests of our existing shareholders and/or increase our interest costs.
The Company is a party to three primary credit agreements: (1) a $400 million unsecured revolving credit facility (increased during the third quarter of 2015 by $100 million when the Company exercised an accordion feature provided for within the Credit Facility as described below) dated July 18, 2013, as amended by a First Amendment dated October 20, 2014, with M/I Homes, Inc. as borrower and guaranteed by the Company's wholly owned homebuilding subsidiaries (the "Credit Facility"); (2) a $110 million secured mortgage warehousing agreement, dated March 29, 2013, with M/I Financial as borrower, as most recently amended on June 26, 2015 (the "MIF Mortgage Warehousing Agreement"); and (3) a $15 million mortgage repurchase agreement dated November 13, 2012, with M/I Financial as borrower, as most recently amended on November 4, 2014 (the "MIF Mortgage Repurchase Facility").
Included in the table below is a summary of our available sources of cash from the Credit Facility, the MIF Mortgage Warehousing Agreement and the MIF Mortgage Repurchase Facility as of September 30, 2015:

(In thousands)	Expiration Date	Outstanding Balance	Available Amount
Notes payable – homebuilding (a)	10/20/2018	$156,100	$209,173
Notes payable – financial services (b)	(b)	$73,239	$750

(a) The available amount under the Credit Facility is computed in accordance with the borrowing base calculation, which totaled $523.4 million of availability at September 30, 2015, such that the full $400 million commitment amount of the facility was available, less any borrowings and letters of credit outstanding. There were $156.1 million borrowings and $34.7 million of letters of credit outstanding at September 30, 2015, leaving $209.2 million available. The Credit Facility has an expiration date of October 20, 2018.

(b) The available amount is computed in accordance with the borrowing base calculations under the MIF Mortgage Warehousing Agreement and the MIF Mortgage Repurchase Facility, each of which may be increased by pledging additional mortgage collateral. The maximum aggregate commitment amount of M/I Financial's warehousing agreements as of September 30, 2015 was $125 million. On June 26, 2015, M/I Financial entered into a third amendment of the MIF Mortgage Warehousing Agreement which extended the expiration date to June 24, 2016. The MIF Mortgage Repurchase Facility has an expiration date of November 3, 2015. M/I Financial expects to enter into an amendment to the MIF Mortgage Repurchase Facility prior to its expiration that would extend its term for an additional year, but M/I Financial can provide no assurances that it will be able to obtain such an extension.

Notes Payable - Homebuilding.

Homebuilding Credit Facility.
The Credit Facility provides for an aggregate commitment amount of $400 million, including a $125 million sub-facility for letters of credit. The Credit Facility matures on October 20, 2018. Interest on amounts borrowed under the Credit Facility is payable at either the Alternate Base Rate plus an initial margin of 150 basis points, or at the Eurodollar Rate plus a margin of 250 basis points, in each case subject to adjustment based on the Company's leverage ratio. During the third quarter of 2015, the Company exercised an accordion feature provided for within the Credit Facility, increasing the total revolving commitment amount from $300 million to $400 million by obtaining additional commitments from existing lenders.
Borrowings under the Credit Facility constitute senior, unsecured indebtedness and availability is subject to, among other things, a borrowing base calculated using various advance rates for different categories of inventory. The Credit Facility contains various representations, warranties and affirmative, negative and financial covenants which require, among other things, that the Company maintain (1) a minimum level of Consolidated Tangible Net Worth of $378.4 million (which amount is subject to increase over

time based on earnings and proceeds from equity offerings), (2) a leverage ratio not in excess of 60%, and (3) either a minimum Interest Coverage Ratio of 1.5 to 1.0 or a minimum liquidity amount. In addition, the Credit Facility contains covenants that limit the Company's number of unsold housing units and model homes, as well as the amount of Investments in Unrestricted Subsidiaries and Joint Ventures.
The Company's obligations under the Credit Facility are guaranteed by all of the Company's subsidiaries, with the exception of subsidiaries that are primarily engaged in the business of mortgage financing, title insurance or similar financial businesses relating to the homebuilding and home sales business, certain subsidiaries that are not 100%-owned by the Company or another subsidiary, and other subsidiaries designated by the Company as Unrestricted Subsidiaries (as defined in Note 11), subject to limitations on the aggregate amount invested in such Unrestricted Subsidiaries. The guarantors for the Credit Facility are the same subsidiaries that guarantee our 8.625% Senior Notes due 2018 (the "2018 Senior Notes"), 3.25% Convertible Senior Subordinated Notes due 2017 (the "2017 Convertible Senior Subordinated Notes"), and 3.0% Convertible Senior Subordinated Notes due 2018 (the "2018 Convertible Senior Subordinated Notes").
As of September 30, 2015, the Company was in compliance with all covenants of the Credit Facility, including financial covenants. The following table summarizes the most significant restrictive covenant thresholds under the Credit Facility and our compliance with such covenants as of September 30, 2015:

Financial Covenant		Covenant Requirement	Actual
		(Dollars in millions)	
Consolidated Tangible Net Worth	≥	$378.4	$526.5
Leverage Ratio	≤	0.60	0.51
Interest Coverage Ratio	≥	1.5 to 1.0	4.0 to 1.0
Investments in Unrestricted Subsidiaries and Joint Ventures	≤	$158.0	$24.1
Unsold Housing Units and Model Homes	≤	1,339	938

Homebuilding Letter of Credit Facilities. The Company is party to three secured credit agreements for the issuance of letters of credit outside of the Credit Facility (collectively, the "Letter of Credit Facilities"), with maturity dates ranging from August 31, 2016 to September 30, 2016. Under the terms of the Letter of Credit Facilities, letters of credit can be issued for maximum terms ranging from one year up to three years. The Letter of Credit Facilities contain cash collateral requirements ranging from 101% to 105%. Upon maturity or the earlier termination of the Letter of Credit Facilities, letters of credit that have been issued under the Letter of Credit Facilities remain outstanding with cash collateral in place through the respective expiration dates.
During the three months ended September 30, 2015, the Company extended the maturity dates on two of its Letter of Credit Facilities for an additional year to August 31, 2016 and September 30, 2016, respectively, and reduced the amount of the facilities from $5.0 million to $3.0 million and $10.0 million to $4.0 million, respectively. The agreements governing the Letter of Credit Facilities contain limits for the issuance of letters of credit ranging from $3.0 million to $5.0 million, for a combined letter of credit capacity of $12.0 million, of which $4.8 million was uncommitted at September 30, 2015 and could be withdrawn at any time. As of September 30, 2015, there was a total of $2.9 million of letters of credit issued under the Letter of Credit Facilities, which was collateralized with $3.0 million of restricted cash.
Notes Payable - Financial Services.

MIF Mortgage Warehousing Agreement. The MIF Mortgage Warehousing Agreement is used to finance eligible residential mortgage loans originated by M/I Financial. The Agreement provides a maximum borrowing availability of $110 million and an accordion feature which allows for an increase of the maximum borrowing availability of up to an additional $20 million (subject to certain conditions, including obtaining additional commitments from existing or new lenders). The maximum principal amount permitted to be outstanding at any one time in aggregate under all warehouse credit lines is $150 million. The MIF Mortgage Warehousing Agreement matures on June 24, 2016. Interest on amounts borrowed under the MIF Mortgage Warehousing Agreement is payable at a per annum rate equal

to the greater of (1) the floating LIBOR rate plus 250 basis points and (2) 2.75%.

The MIF Mortgage Warehousing Agreement is secured by certain mortgage loans originated by M/I Financial and that are being "warehoused" prior to their sale to investors. The MIF Mortgage Warehousing Agreement provides for limits with respect to certain loan types that can secure outstanding borrowings. There are currently no guarantors of the MIF Mortgage Warehousing Agreement, although M/I Financial may, at its election, designate from time to time any one or more of its subsidiaries as guarantors.

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As of September 30, 2015, there was $64.9 million outstanding under the MIF Mortgage Warehousing Agreement and M/I Financial was in compliance with all covenants. The financial covenants, as more fully described and defined in the MIF Mortgage Warehousing Agreement, are summarized in the following table, which also sets forth M/I Financial’s compliance with such covenants as of September 30, 2015:

Financial Covenant		Covenant Requirement	Actual
		(Dollars in millions)	
Leverage Ratio	≤	10.0 to 1.0	4.1 to 1.0
Liquidity	≥	$5.5	$14.8
Adjusted Net Income	>	$0.0	$8.6
Tangible Net Worth	≥	$11.0	$20.4

MIF Mortgage Repurchase Facility. The MIF Mortgage Repurchase Facility is used to finance eligible residential mortgage loans originated by M/I Financial and is structured as a mortgage repurchase facility with a maximum borrowing availability of $15 million and an expiration date of November 3, 2015. M/I Financial pays interest on each advance under the MIF Mortgage Repurchase Facility at a per annum rate equal to the floating LIBOR rate plus 275 or 300 basis points depending on the loan type. The covenants in the MIF Mortgage Repurchase Facility are substantially similar to the covenants in the MIF Mortgage Warehousing Agreement. The MIF Mortgage Repurchase Facility provides for limits with respect to certain loan types that can secure outstanding borrowings, which are substantially similar to the restrictions in the MIF Mortgage Warehousing Agreement. There are currently no guarantors of the MIF Mortgage Repurchase Facility. As of September 30, 2015, there was $8.3 million outstanding under the MIF Mortgage Repurchase Facility. M/I Financial was in compliance with all financial covenants as of September 30, 2015.

As is typical for similar credit facilities in the mortgage origination industry, at closing, the expiration of the MIF Mortgage Repurchase Facility was set at approximately one year and is under consideration for extension annually by the lender. M/I Financial expects to enter into an amendment to the MIF Mortgage Repurchase Facility prior to its expiration that would extend its term for an additional year, but M/I Financial cannot provide any assurance that it will be able to obtain such an extension.

Senior Notes and Convertible Senior Subordinated Notes.

8.625% Senior Notes. In November 2010, the Company issued $200 million aggregate principal amount of 8.625% Senior Notes due 2018. In May 2012, we issued an additional $30 million of 2018 Senior Notes under our 2018 Senior Notes indenture for a total outstanding balance of $230 million. The Company may redeem all or any portion of the 2018 Senior Notes at a stated redemption price, together with accrued and unpaid interest thereon. The redemption price currently equals 104.313% of the principal amount outstanding, but will decline to 102.156% of the principal amount outstanding if redeemed during the 12-month period beginning on November 15, 2015, and will further decline to 100.000% of the principal amount outstanding if redeemed on or after November 15, 2016, but prior to maturity.

The 2018 Senior Notes contain certain covenants, as more fully described and defined in the indenture, which limit the ability of the Company and the restricted subsidiaries to, among other things: incur additional indebtedness; make certain payments, including dividends, or repurchase any shares, in an aggregate amount exceeding our “restricted payments basket”; make certain investments; and create or incur certain liens, consolidate or merge with or into other companies, or liquidate or sell or transfer all or substantially all of our assets. These covenants are subject to a number of exceptions and qualifications as described in the indenture governing the 2018 Senior Notes. As of September 30, 2015, the Company was in compliance with all terms, conditions, and covenants under the indenture.

See Note 7 for more information regarding the 2018 Senior Notes.

3.0% Convertible Senior Subordinated Notes. In March 2013, the Company issued $86.3 million aggregate principal amount of 3.0% Convertible Senior Subordinated Notes due 2018. The conversion rate initially equals 30.9478 shares per $1,000 of their principal amount. This corresponds to an initial conversion price of approximately $32.31 per common share, which equates to approximately 2.7 million common shares. See Note 7 for more information regarding the 2018 Convertible Senior Subordinated Notes.

3.25% Convertible Senior Subordinated Notes. In September 2012, the Company issued $57.5 million aggregate principal amount of 3.25% Convertible Senior Subordinated Notes due 2017. The conversion rate initially equals 42.0159 shares per $1,000 of principal amount. This corresponds to an initial conversion price of approximately $23.80 per common share which equates to approximately 2.4 million common shares. See Note 7 for more information regarding the 2017 Convertible Senior Subordinated Notes.

Weighted Average Borrowings. For the three months ended September 30, 2015 and 2014, our weighted average borrowings outstanding were $570.0 million and $441.1 million, respectively, including the principal amounts outstanding under our 2018 Senior Notes, our 2017 Convertible Senior Subordinated Notes and our 2018 Convertible Senior Subordinated Notes, with a weighted average interest rate of 6.03% and 7.03%, respectively. The increase in our weighted average borrowings related to an increase in borrowings under the Credit Facility during the quarter compared to 2014's third quarter. The decline in our weighted average borrowing rate was also primarily due to the increase in borrowings under the Credit Facility, which has a lower rate.

At September 30, 2015, we had $156.1 million outstanding under the Credit Facility. During the nine months ended September 30, 2015, the average daily amount outstanding under the Credit Facility was $109.8 million and the maximum amount outstanding under the Credit Facility was $166.1 million. Based on our current anticipated spending on land acquisition and development in the fourth quarter of 2015, and associated increases in our investment in inventory, including land and houses under construction, we expect to borrow under the Credit Facility during the remainder of 2015, with an estimated peak amount outstanding of approximately $175 million. The actual amount borrowed in 2015 (and the peak amount outstanding) and related timing are subject to numerous factors, including the timing and amount of land and house construction expenditures, payroll and other general and administrative expenses, cash receipts from home deliveries, other cash receipts and payments, any capital markets transactions or other additional financings by the Company and any repayments or redemptions of outstanding debt. The Company may experience significant variation in cash and Credit Facility balances from week to week due to the timing of such receipts and payments.
There were $34.7 million of letters of credit issued and outstanding under the Credit Facility at September 30, 2015. During the nine months ended September 30, 2015, the average daily amount of letters of credit outstanding under the Credit Facility was $29.5 million and the maximum amount of letters of credit outstanding under the Credit Facility was $35.4 million.

At September 30, 2015, M/I Financial had $64.9 million outstanding under the MIF Mortgage Warehousing Agreement. During the nine months ended September 30, 2015, the average daily amount outstanding under the MIF Mortgage Warehousing Agreement was $34.2 million and the maximum amount outstanding was $70.6 million.

At September 30, 2015, M/I Financial had $8.3 million outstanding under the MIF Mortgage Repurchase Facility. During the nine months ended September 30, 2015, the average daily amount outstanding under the MIF Mortgage Repurchase Facility was $7.8 million and the maximum amount outstanding was $14.8 million.
Preferred Shares. On March 15, 2007, we issued 4,000,000 depositary shares, each representing 1/1000th of a Series A Preferred Share, or 4,000 Series A Preferred Shares in the aggregate, for net proceeds of $96.3 million. The Series A Preferred Shares have a liquidation preference equal to $25 per depositary share (plus an amount equal to all accrued and unpaid dividends (whether or not earned or declared) for the then current quarterly dividend period accrued to but excluding the date of final distribution). Dividends on the Series A Preferred Shares are non-cumulative and, if declared by us, are paid at an annual rate of 9.75%. Dividends are payable quarterly in arrears, if declared by us, on March 15, June 15, September 15 and December 15. If there is a change of control of the Company and if the Company’s corporate credit rating is withdrawn or downgraded to a certain level (together constituting a “change of control event”), the dividends on the Series A Preferred Shares will increase to 10.75% per year. We may redeem the Series A Preferred Shares in whole or in part (provided, that any redemption that would reduce the aggregate liquidation preference of the Series A Preferred Shares below $25 million in the aggregate would be restricted to a redemption in whole only) at any time or from time to time at a cash redemption price equal to $25 per depositary share (plus an amount equal to all accrued and unpaid dividends (whether or not earned or declared) for the then current quarterly dividend period accrued to but excluding the redemption date). Holders of the Series A Preferred Shares have no right to require redemption of the Series A Preferred Shares. The Series A Preferred Shares have no stated maturity, are not subject to any sinking fund provisions, are not convertible into any other securities, and will

remain outstanding indefinitely unless redeemed by us. Holders of the Series A Preferred Shares have no voting rights, except with respect to those specified matters set forth in the Company's Amended and Restated Articles of Incorporation or as otherwise required by applicable Ohio law, and no preemptive rights. The outstanding depositary shares are listed on the New York Stock Exchange under the trading symbol "MHO-PrA." There is no separate public trading market for the Series A Preferred Shares except as represented by the depositary shares.

The indenture governing our 2018 Senior Notes limits our ability to pay dividends on, and repurchase, our common shares and Series A Preferred Shares to the amount of the positive balance in our "restricted payments basket," as defined in the indenture. The restricted payments basket was $159.6 million at September 30, 2015. We are permitted by the indenture to pay dividends on, and repurchase, our common shares and Series A Preferred Shares to the extent of such positive balance in our restricted payments basket. We declared and paid a quarterly dividend of $609.375 per share on our Series A Preferred Shares in the third quarter of 2015 and 2014 for $1.2 million and have paid aggregate Series A Preferred Share dividends of $3.7 million for the nine months ended September 30, 2015 and 2014. The determination to pay future dividends on, and make future repurchases of, our

common shares and Series A Preferred Shares will be at the discretion of our board of directors and will depend upon our results of operations, financial condition, capital requirements and compliance with debt covenants and the terms of our Series A Preferred Shares, and other factors deemed relevant by our board of directors.
Universal Shelf Registration. In October 2013, the Company filed a $400 million universal shelf registration statement with the SEC, which registration statement became effective on December 20, 2013. Pursuant to the registration statement, the Company may, from time to time, offer debt securities, common shares, preferred shares, depositary shares, warrants to purchase debt securities, common shares, preferred shares, depositary shares or units of two or more of those securities, rights to purchase debt securities, common shares, preferred shares or depositary shares, stock purchase contracts and units. The timing and amount of offerings, if any, will depend on market and general business conditions.

CONTRACTUAL OBLIGATIONS

There have been no material changes to our contractual obligations appearing in the Contractual Obligations section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2014.

OFF-BALANCE SHEET ARRANGEMENTS
Notes 3, 5 and 6 discuss our off-balance sheet arrangements with respect to land acquisition contracts and option agreements, and land development joint ventures, including the nature and amounts of financial obligations relating to these items. In addition, these Notes discuss the nature and amounts of certain types of commitments that arise in the ordinary course of our land development and homebuilding operations, including commitments of land development joint ventures for which we might be obligated.
Our off-balance sheet arrangements relating to our homebuilding operations include unconsolidated joint ventures, land option agreements, guarantees and indemnifications associated with acquiring and developing land, and the issuance of letters of credit and completion bonds. Our use of these arrangements is for the purpose of securing the most desirable lots on which to build homes for our homebuyers in a manner that we believe reduces the overall risk to the Company. Additionally, in the ordinary course of its business, our financial services operations issue guarantees and indemnities relating to the sale of loans to third parties.
Land Option Agreements. In the ordinary course of business, the Company enters into land option or purchase agreements for which we generally pay non-refundable deposits. Pursuant to these land option agreements, the Company provides a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices. In accordance with ASC 810, we analyze our land option or purchase agreements to determine whether the corresponding land sellers are VIEs and, if so, whether we are the primary beneficiary. Although we do not have legal title to the optioned land, ASC 810 requires a company to consolidate a VIE if the company is determined to be the primary beneficiary. In cases where we are the primary beneficiary, even though we do not have title to such land, we are required to consolidate these purchase/option agreements and reflect such assets and liabilities as Consolidated Inventory not Owned in our Unaudited Condensed Consolidated Balance Sheets. At both September 30, 2015 and December 31, 2014, we have concluded that we were not the primary beneficiary of any VIEs from which we are purchasing under land option or purchase agreements.
At September 30, 2015, "Consolidated Inventory Not Owned" was $11.4 million. At September 30, 2015, the corresponding liability of $11.4 million has been classified as Obligation for Consolidated Inventory Not Owned on our Unaudited Condensed Consolidated Balance Sheets.

Other than the Consolidated Inventory Not Owned balance, the Company currently believes that its maximum exposure as of September 30, 2015 related to our land option agreements is equal to the amount of the Company's outstanding deposits and prepaid acquisition costs, which totaled $34.4 million, including cash deposits of $24.1 million, prepaid acquisition costs of $3.8 million and letters of credit of $6.5 million.

Letters of Credit and Completion Bonds. The Company provides standby letters of credit and completion bonds for development work in progress, deposits on land and lot purchase agreements and miscellaneous deposits. As of September 30, 2015, the Company had outstanding $150.8 million of completion bonds and standby letters of credit, some of which were issued to various local governmental entities, that expire at various times through September 2026. Included in this total are: (1) $101.2 million of performance and maintenance bonds and $25.3 million of performance letters of credit that serve as completion bonds for land development work in progress; (2) $12.4 million of financial letters of credit; and (3) $11.9 million of financial bonds. The development agreements under which we are required to provide completion bonds or letters of credit are generally not subject to a required completion date and only require that the improvements are in place in phases as houses are built and sold. In locations

where development has progressed, the amount of development work remaining to be completed is typically less than the remaining amount of bonds or letters of credit due to timing delays in obtaining release of the bonds or letters of credit.
Guarantees and Indemnities. In the ordinary course of business, M/I Financial enters into agreements that guarantee purchasers of its mortgage loans that M/I Financial will repurchase a loan if certain conditions occur. The risks associated with these guarantees are offset by the value of the underlying assets, and the Company accrues its best estimate of the probable loss on these loans. Additionally, the Company has provided certain other guarantees and indemnities in connection with the acquisition and development of land by our homebuilding operations. Refer to Note 5 for additional details relating to our guarantees and indemnities.

INTEREST RATES AND INFLATION

Our business is significantly affected by general economic conditions within the United States and, particularly, by the impact of interest rates and inflation. Inflation can have a long-term impact on us because increasing costs of land, materials and labor can result in a need to increase the sales prices of homes. In addition, inflation is often accompanied by higher interest rates, which can have a negative impact on housing demand and the costs of financing land development activities and housing construction. Higher interest rates also may decrease our potential market by making it more difficult for homebuyers to qualify for mortgages or to obtain mortgages at interest rates that are acceptable to them. The impact of increased rates can be offset, in part, by offering variable rate loans with lower interest rates. In conjunction with our mortgage financing services, hedging methods are used to reduce our exposure to interest rate fluctuations between the commitment date of the loan and the time the loan closes. Rising interest rates, as well as increased materials and labor costs, may reduce gross margins. An increase in material and labor costs is particularly a problem during a period of declining home prices. Conversely, deflation can impact the value of real estate and make it difficult for us to recover our land costs. Therefore, either inflation or deflation could adversely impact our future results of operations.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk results from fluctuations in interest rates. We are exposed to interest rate risk through borrowings under our revolving credit and mortgage repurchase facilities, consisting of the Credit Facility, the MIF Mortgage Warehousing Agreement, and the MIF Mortgage Repurchase Facility which permit borrowings of up to $525 million, subject to availability constraints. Additionally, M/I Financial is exposed to interest rate risk associated with its mortgage loan origination services.

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

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

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

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

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

Description of Financial Instrument (in thousands)	September 30, 2015	December 31, 2014
Best-effort contracts and related committed IRLCs	$5,554	$3,072
Uncommitted IRLCs	79,604	28,028
FMBSs related to uncommitted IRLCs	80,000	41,000
Best-effort contracts and related mortgage loans held for sale	11,057	61,233
FMBSs related to mortgage loans held for sale	64,000	27,000
Mortgage loans held for sale covered by FMBSs	63,977	26,825

The table below shows the measurement of assets and liabilities at September 30, 2015 and December 31, 2014:

Description of Financial Instrument (in thousands)	September 30, 2015	December 31, 2014
Mortgage loans held for sale	$77,550	$92,794
Forward sales of mortgage-backed securities	(1,270)	(182)
Interest rate lock commitments	985	288
Best-efforts contracts	(201)	53
Total	$77,064	$92,953

The following table sets forth the amount of gain (loss) recognized on assets and liabilities for the three months ended September 30, 2015 and 2014:

Description (in thousands)	Three Months Ended September 30, 2015	2014
Mortgage loans held for sale	$1,585	$(959)
Forward sales of mortgage-backed securities	(2,520)	398
Interest rate lock commitments	924	(144)
Best-efforts contracts	(125)	164
Total loss recognized	$(136)	$(541)

The following table provides the expected future cash flows and current fair values of borrowings under our credit facilities and mortgage loan origination services that are subject to market risk as interest rates fluctuate, as of September 30, 2015. Because the MIF Mortgage Warehousing Agreement and MIF Mortgage Repurchase Facility are effectively secured by certain mortgage loans held for sale which are typically sold within 30 to 45 days, their outstanding balances are included in the most current period presented. The interest rates for our variable rate debt represent the weighted average interest rates in effect at September 30, 2015. For fixed-rate debt, changes in interest rates generally affect the fair market value of the debt instrument, but not our earnings or cash flow. Conversely, for variable-rate debt, changes in interest rates generally do not affect the fair market value of the debt instrument, but do affect our earnings and cash flow. We do not have the obligation to prepay fixed-rate debt prior to maturity, and, as a result, interest rate risk and changes in fair market value should not have a significant impact on our fixed-rate debt until we are required or elect to refinance it.

	Expected Cash Flows by Period							Fair Value
(Dollars in thousands)	2015	2016	2017	2018	2019	Thereafter	Total	9/30/2015
ASSETS:								
Mortgage loans held for sale:								
Fixed rate	$75,808	$—	$—	$—	$—	$—	$75,808	$74,001
Weighted average interest rate	3.92 %	— %	— %	— %	— %	— %	3.92 %	
Variable rate	$3,580	$—	$—	$—	$—	$—	$3,580	$3,549
Weighted average interest rate	3.23 %	— %	— %	— %	— %	— %	3.23 %	
LIABILITIES:								
Long-term debt — fixed rate	$503	$970	$59,772	$316,657	$293	$522	$378,717	$387,482
Weighted average interest rate	4.24 %	4.24 %	3.29 %	7.06 %	3.37 %	3.37 %	6.46 %	
Short-term debt — variable rate	$229,339	$—	$—	$—	$—	$—	$229,339	$229,339
Weighted average interest rate	2.87 %	— %	— %	— %	— %	— %	2.87 %	

ITEM 4: CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes to the risk factors appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

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

(a) Recent Sales of Unregistered Securities — None.

(b) Use of Proceeds — Not Applicable.

(c) Purchases of Equity Securities

There were no purchases made by, or on behalf of, the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of the Company's common shares or Series A Preferred Shares during the three months ended September 30, 2015.

See Note 7 and the "Liquidity and Capital Resources" section above for more information regarding the limit imposed by the indenture governing our 2018 Senior Notes on our ability to pay dividends on, and repurchase, our common shares and Series A Preferred Shares to the amount of the positive balance in our "restricted payments basket," as defined in the indenture.

Item 3. Defaults Upon Senior Securities - None.

Item 4. Mine Safety Disclosures - None.

Item 5. Other Information - None.

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Item 6. Exhibits

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

Exhibit Number	Description
10.1	Commitment Increase Activation Notice dated August 28, 2015, by and among M/I Homes, Inc., as borrower, the lenders party thereto, and PNC Bank, National Association, as administrative agent (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 31, 2015).
10.2	Sixth Amendment to Letter of Credit Agreement between M/I Homes, Inc. and Regions Bank. (Filed herewith.)
10.3	Sixth Amended and Restated Master Letter of Credit Facility Agreement between M/I Homes, Inc. and U.S. Bank National Association. (Filed herewith.)
31.1	Certification by Robert H. Schottenstein, Chief Executive Officer, pursuant to Item 601 of Regulation S-K as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
31.2	Certification by Phillip G. Creek, Chief Financial Officer, pursuant to Item 601 of Regulation S-K as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
32.1	Certification by Robert H. Schottenstein, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
32.2	Certification by Phillip G. Creek, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
101.INS	XBRL Instance Document. (Furnished herewith.)
101.SCH	XBRL Taxonomy Extension Schema Document. (Furnished herewith.)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document. (Furnished herewith.)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document. (Furnished herewith.)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document. (Furnished herewith.)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. (Furnished herewith.)

SIGNATURES

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

			M/I Homes, Inc. (Registrant)
Date:	October 23, 2015	By:	/s/ Robert H. Schottenstein Robert H. Schottenstein Chairman, Chief Executive Officer and President (Principal Executive Officer)
Date:	October 23, 2015	By:	/s/ Ann Marie W. Hunker Ann Marie W. Hunker Vice President, Corporate Controller (Principal Accounting Officer)

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