

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2019

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 1-12434

M/I HOMES, INC.

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of incorporation or organization)

31-1210837

(I.R.S. Employer Identification No.)

3 Easton Oval, Suite 500, Columbus, Ohio 43219

(Address of principal executive offices) (Zip Code)

(614) 418-8000

(Registrant's telephone number, including area code)

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Shares, par value \$.01	MHO	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

Yes No

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

Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

As of June 30, 2019, the last business day of the registrant’s most recently completed second fiscal quarter, the aggregate market value of the registrant’s common shares (its only class of common equity) held by non-affiliates (27,001,151 shares) was approximately \$770.6 million. The number of common shares of the registrant outstanding as of February 19, 2020 was 28,578,537.

DOCUMENT INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement for the 2020 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

Special Note of Caution Regarding 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,” “envisions,” “targets,” “goals,” “projects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” variations of such words and similar expressions are intended to identify such forward-looking statements. These statements involve a number of risks and uncertainties. Any forward-looking statements that we make herein and in future reports and statements are not guarantees of future performance, and actual results may differ materially from those in such forward-looking statements as a result of various risk factors. See “Item 1A. Risk Factors” in Part I of this Annual Report on 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.

Item 1. BUSINESS

General

M/I Homes, Inc. and subsidiaries (the “Company,” “we,” “us” or “our”) is one of the nation’s leading builders of single-family homes. The Company was incorporated, through predecessor entities, in 1973 and commenced homebuilding activities in 1976. Since that time, the Company has sold over 118,200 homes.

The Company consists of two distinct operations: homebuilding and financial services. Our homebuilding operations are aggregated for reporting purposes into two reporting segments - the Northern and Southern regions. Our financial services operations support our homebuilding operations by providing mortgage loans and title services to the customers of our homebuilding operations and are reported as an independent segment.

Our homebuilding operations comprise the most significant portion of our business, representing 98% of consolidated revenue in both 2019 and 2018. We design, market, construct and sell single-family homes and attached townhomes to first-time, move-up, empty-nester, and luxury buyers. In addition to home sales, our homebuilding operations generate revenue from the sale of land and lots. We use the term “home” to refer to a single-family residence, whether it is a single-family home or attached home, and we use the term “community” to refer to a single development with a unique product type, or, at times, “communities” to refer to a single development with multiple product types, in which we construct homes. We primarily construct homes in planned development communities and mixed-use communities. We are currently offering homes for sale in 225 communities within 15 markets located in ten states. Our average sales price of homes delivered during 2019 was \$384,000, and the average sales price of our homes in backlog at December 31, 2019 was \$396,000. We offer homes ranging from a base sales price of approximately \$180,000 to \$1,000,000 and believe that this range of price points allows us to appeal to and attract a wide range of buyers. We believe that we distinguish ourselves from competitors by offering homes in select areas with a high level of design and construction quality, providing superior customer service and offering mortgage and title services in order to fully serve our customers. In our experience, our product offerings and customer service make the homebuying process more efficient for our customers.

Our financial services operations generate revenue primarily from originating and selling mortgages and collecting fees for title insurance and closing services. We offer mortgage banking services to our homebuyers through our 100%-owned subsidiary, M/I Financial, LLC (“M/I Financial”). We offer title services through subsidiaries that are either 100% or majority owned by the Company. Our financial services operations accounted for 2% of our consolidated revenues in both 2019 and 2018. See the “Financial Services” section below for additional information regarding our financial services operations.

Our principal executive offices are located at 3 Easton Oval, Suite 500, Columbus, Ohio 43219. The telephone number of our corporate headquarters is (614) 418-8000 and our website address is www.mihomes.com. Information on our website is not a part of and shall not be deemed incorporated by reference in this Form 10-K.

Markets

For reporting purposes, our 15 homebuilding divisions are aggregated into the following two segments:

<i>Region</i>	<i>Market/Division</i>	<i>Year Operations Commenced</i>
Northern	Columbus, Ohio	1976
Northern	Cincinnati, Ohio	1988
Northern	Indianapolis, Indiana	1988
Northern	Chicago, Illinois	2007
Northern	Minneapolis/St. Paul, Minnesota	2015
Northern	Detroit, Michigan	2018
Southern	Tampa, Florida	1981
Southern	Orlando, Florida	1984
Southern	Sarasota, Florida	2016
Southern	Houston, Texas	2010
Southern	San Antonio, Texas	2011
Southern	Austin, Texas	2012
Southern	Dallas/Fort Worth, Texas	2013
Southern	Charlotte, North Carolina	1985
Southern	Raleigh, North Carolina	1986

During the first quarter of 2019, we decided to wind down our Washington, D.C. operations, which was substantially completed as of December 31, 2019.

We believe we have experienced management teams in each of our divisions with local market expertise. Our business requires in-depth knowledge of local markets to acquire land in desirable locations and on favorable terms, engage subcontractors, plan communities that meet local demand, anticipate consumer tastes in specific markets, and assess local regulatory environments. Although we centralize certain functions (such as accounting, human resources, legal, land purchase approval, and risk management) to benefit from economies of scale, our local management, generally under the direction of an Area President and supervised by a Region President, exercises considerable autonomy in identifying land acquisition opportunities, developing and implementing product and sales strategies, and controlling costs.

Industry Overview and Current Market Conditions

Housing market conditions were generally favorable during 2019, as evidenced by our strong results. We believe that many of the fundamentals supporting continued growth in demand remain favorable, including low mortgage rates, high consumer confidence, growth in employment, wage increases, and a limited supply of new and existing homes. Company-wide, our absorption pace of sales per community for 2019 improved to 2.6 per month compared to 2.4 per month in 2018. However, as a result of the growth in our more affordable Smart Series, primarily designed for entry-level and move-down homebuyers, our average sales price in backlog declined in 2019 by 3%.

Business Strategy

We remain focused on increasing our profitability by generating additional revenue, continuing to expand our market share, shifting our product mix to include more affordable designs, and investing in attractive land opportunities to increase our number of active communities. Consistent with our focus on improving long-term financial results, we expect to emphasize the following strategic business objectives in 2020:

- profitably growing our presence in our existing markets, including opening new communities;
- expanding the availability of our more affordable Smart Series homes;
- opportunistically reviewing potential new markets;
- maintaining a strong balance sheet; and
- emphasizing customer service, product quality and design, and premier locations.

However, we can provide no assurance that the positive trends reflected in our financial and operating metrics in 2018 and 2019 will continue in 2020.

Sales and Marketing

During 2019, we continued to focus our marketing efforts on first-time and move-up homebuyers, including home designs targeted to first-time, millennial and empty-nester homebuyers. We market and sell our homes primarily under the M/I Homes and Showcase Collection (exclusively by M/I Homes) brands. Additionally, the Hans Hagen brand is used in older communities in our Minneapolis/St. Paul market. Our marketing efforts are directed at driving interest in and preference for the M/I Homes brands over other homebuilders or the resale market.

We provide our homebuyers with the following products, programs and services which we believe differentiate our brand: (1) homes with high quality construction located in attractive areas and desirable communities that are supported by our industry leading transferable structural warranty, which is a 15-year warranty in all of our markets other than Texas and a 10-year warranty in our Texas markets; (2) our Whole Home Building Standards which are designed to deliver features and benefits that satisfy the buyer's expectation for a better-built home, including a more eco-friendly and energy efficient home that we believe will generally save our customers up to 30% on their energy costs compared to a home that is built to minimum code requirements; (3) our Design Studios and Design Consultants that assist our homebuyers in selecting product and design options; (4) fully furnished model homes and highly-trained sales consultants to build the buyer's confidence and enhance the quality of the homebuying experience; (5) our mortgage financing programs that we offer through M/I Financial, including competitive fixed-rate and adjustable-rate loans; (6) our Ready Now Homes program which offers homebuyers the opportunity to close on certain new homes in 60 days or less; and (7) our unwavering focus on customer care and customer satisfaction.

By offering Whole Home Energy-Efficient Homes to our customers, we enable our homebuyers to save on their energy costs (the second largest cost of home ownership) compared to a home that is built to minimum code requirements. We use independent RESNET-Certified Raters and the HERS (Home Energy Rating System) Index, the national standard for energy efficiency, to measure the performance of our homes, including insulation, ventilation, air tightness, and the heating and cooling system. Our divisions' average scores are generally lower (and, therefore, better) than the Environmental Protection Agency's Energy Star target standard of 72-75 or the average score for a resale home (130 or higher).

To further enhance the homebuying process, we operate Design Studios in a majority of our markets. Our Design Studios allow our homebuyers to select from a variety of product and design options that are available for purchase as part of the original construction of their homes. Our centers are staffed with Design Consultants who help our homebuyers select the right combination of options to meet their budget, lifestyle and design sensibilities. In most of our markets, we offer our homebuyers the option to consider and make design planning decisions using our Envision online design tool. We believe this tool is helpful for prospective buyers to use during the planning phase and makes their actual visit to our Design Studios more productive and efficient as our consultants are able to view the buyer's preliminary design selections and pull samples in advance of the buyer's visit.

We also invest in designing and decorating fully-furnished and distinctive model homes intended to create an atmosphere reflecting how people live today and help our customers imagine the possibilities for a "home of their own, just the way they dreamed it." We carefully select the interior decorating and design of our model homes to reflect the lifestyles of our prospective buyers. We believe these models showcase our homes at their maximum livability and potential and provide ideas and inspiration for our customers to incorporate valuable design options into their new home.

Our company-employed sales consultants are trained and prepared to meet the buyer's expectations and build the buyer's confidence by fully explaining the features and benefits of our homes, helping each buyer determine which home best suits the buyer's needs, explaining the construction process, and assisting the buyer in choosing the best financing option. Significant attention is given to the ongoing training of all sales personnel to assure a high level of professionalism and product knowledge. As of December 31, 2019, we employed 248 home sales consultants.

We also offer specialized mortgage financing programs through M/I Financial to assist our homebuyers. We offer conventional financing options along with programs offered by the Federal Housing Authority ("FHA"), U.S. Veterans Administration ("VA"), United States Department of Agriculture ("USDA") and state housing bond agencies. M/I Financial offers our homebuyers "one-stop" shopping by providing mortgage and title services for the purchase of their home, which we believe saves our customers both time and money. By working with many of the major mortgage providers in the country, we seek to offer our homebuyers unique programs with below-market financing options that are more competitive than what homebuyers could obtain on their own. With respect to title services, the Company's title subsidiaries work closely with our homebuilding divisions so that we are able to provide an organized and efficient home delivery process.

We also build inventory homes in most of our communities to offer homebuyers the opportunity to close on certain new homes in 60 days or less. These homes enhance our marketing and sales efforts to prospective homebuyers who require a home delivery within a short time frame and allow us to compete effectively with existing homes available in the market. We determine our inventory homes strategy in each market based on local market factors, such as job growth, the number of job relocations, housing

demand and supply, seasonality and our past experience in the market. We maintain a level of inventory homes in each community based on our current and planned sales pace, and we monitor and adjust inventory homes on an ongoing basis as conditions warrant.

We seek to keep our homebuyers actively involved in the construction of their new home, providing them with continued communication throughout the design and construction process. Our goal is to put the buyer first and enhance the total homebuying experience. We believe prompt and courteous responses to homebuyers' needs throughout the homebuying process reduce post-delivery repair costs, enhance our reputation for quality and service, and encourage repeat and referral business from homebuyers and the real estate community.

Finally, we believe our ultimate differentiator comes from the principles our company was founded upon -- integrity and delivering superior customer service and a quality product. Our customer satisfaction scores are measured by an independent third-party company at both 30 days and 6 months after delivery to hold us accountable for building a home of the highest quality.

We market our homes using digital and traditional media. The particular media used differs from market to market based on area demographics and other competitive factors. We market directly to consumers via newspaper, direct mail, billboards, radio, and television as well as internet marketing using our website, search engine optimization, paid search, and display advertising. We leverage our presence on referral sites, such as Zillow.com and NewHomeSource.com, to drive sales leads to our internet sales associates. We also use email marketing to maintain communication with existing prospects and customers. We use our social media presence to communicate to potential homebuyers the experiences of customers who have purchased our homes and to provide content about our homes and design features.

Product Lines, Design and Construction

Our residential communities are generally located in suburban areas that are easily accessible through public and personal transportation. Our communities are designed as neighborhoods that fit existing land characteristics. We strive to achieve diversity among architectural styles within a community by offering a variety of house models and several exterior design options for each model. We also preserve existing trees and foliage whenever practicable. Normally, homes of the same type or color may not be built next to each other. We believe our communities have attractive entrances with distinctive signage and landscaping and that our attention to community detail avoids a "development" appearance and gives each community a diversified neighborhood appearance.

We offer homes ranging from a base sales price of approximately \$180,000 to \$1,000,000 and from approximately 1,100 to 5,500 square feet. In addition to single-family detached homes, we also offer attached townhomes in several of our markets. By offering a wide range of homes, we are able to attract first-time, millennial, move-up, empty-nester and luxury homebuyers. It is our goal to sell more than one home to our buyers, and we believe we have had success in this strategy.

We devote significant resources to the research, design and development of our homes to meet the demands of our buyers and evolving market requirements. Across all of our divisions, we currently offer over 600 different floor plans designed to reflect current lifestyles and design trends. We continue to change and update our plan portfolio based on trends and market conditions. In addition, we are continuing to develop new floor plans and communities specifically for the growing empty-nester market. These plans (primarily ranch and main floor master bedroom type plans) focus on move-down buyers, are smaller in size, and feature outdoor living potential, fewer bedrooms, and better community amenities. Our homebuilding divisions often share successful plans with other divisions, when appropriate.

We have successfully implemented our "Smart Series" across all of our divisions and it represented approximately 30% of our total sales as of December 31, 2019. Our "Smart Series" is intended to offer buyers excellent value, great locations, and pre-selected packages of upgraded finishes and appliances. Our "Smart Series" targets entry-level and move-down buyers and focuses significant attention on affordability, livability and offering some design flexibility to our customers. This series has become an important and successful part of our overall product lineup.

Our "City Collection" floor plans offer a unique and upscale urban lifestyle by utilizing narrow lots, detached rear garages and thoughtfully designed interiors. Our City Collection enables us to participate in new infill development opportunities that extend beyond our traditional suburban markets.

We design all of our product lines to reduce production costs and construction cycle times while adhering to our quality standards and using materials and construction techniques that reflect our commitment to more environmentally conscious homebuilding methods. All of our homes are constructed according to proprietary designs that meet the applicable FHA and VA requirements and all local building codes. We attempt to maintain efficient operations by utilizing standardized materials. Our raw materials consist primarily of lumber, concrete and similar construction materials, and while these materials are generally available from a variety of sources, we have reduced construction and administrative costs by executing national purchasing contracts with select

vendors. Our homes are constructed according to standardized prototypes which are designed and engineered to provide innovative product design while attempting to minimize costs of construction and control product consistency and availability. We generally employ subcontractors for the installation of site improvements and the construction of homes. The construction of each home is supervised by a Personal Construction Supervisor who reports to a Production Manager, both of whom are employees of the Company. Our Personal Construction Supervisors manage the scheduling and construction process. Subcontractor work is performed pursuant to written agreements that require our subcontractors to comply with all applicable laws and labor practices, follow local building codes and permits, and meet performance, warranty, and insurance requirements. The agreements generally specify a fixed price for labor and materials and are structured to provide price protection for a majority of the higher-cost phases of construction for homes in our backlog.

We begin construction on a majority of our homes after we have obtained a sales contract and preliminary oral confirmation from the buyer's lender that financing should be approved. In certain markets, contracts may be accepted contingent upon the sale of an existing home, and construction may be authorized through a certain phase prior to satisfaction of that contingency. The construction of our homes typically takes approximately four to six months from the start of construction to completion of the home, depending on the size and complexity of the particular home being built, weather conditions, and the availability of labor, materials, and supplies. We also construct inventory homes (i.e., homes started in the absence of an executed contract) to facilitate delivery of homes on an immediate-need basis under our Ready Now Homes program and to provide presentation of new products. For some prospective buyers, selling their existing home has become a less predictable process and, as a result, when they sell their home, they often need to find, buy and move into a new home in 60 days or less. Other buyers simply prefer the certainty provided by being able to fully visualize a home before purchasing it. Of the total number of homes closed in 2019 and 2018, 49% and 45%, respectively, were inventory homes which include both homes started as inventory homes and homes that started under a contract that were later cancelled and became inventory homes as a result.

Backlog

We sell our homes under standard purchase contracts, which generally require a homebuyer deposit at the time of signing the contract. The amount of the deposit varies among markets and communities. We also generally require homebuyers to pay additional deposits when they select options or upgrades for their homes. Most of our home purchase contracts stipulate that if a homebuyer cancels a contract with us, we have the right to retain the homebuyer's deposits. However, we generally permit our homebuyers to cancel their obligations and obtain refunds of all or a portion of their deposits (unless home construction has started) in the event mortgage financing cannot be obtained within the period specified in their contract to maintain goodwill with the potential buyer.

Backlog consists of homes that are under contract but have not yet been delivered. Ending backlog represents the number of homes in backlog from the previous period plus the number of net new contracts (new contracts for homes less cancellations) generated during the current period minus the number of homes delivered during the current period. The backlog at any given time will be affected by cancellations. Due to the seasonality of the homebuilding industry, the number of homes delivered has historically increased from the first to the fourth quarter in any year.

As of December 31, 2019, we had a total of 2,671 homes in backlog with an aggregate sales value of \$1,058 million, in various stages of completion, including homes that are under contract but for which construction had not yet begun. As of December 31, 2018, we had a total of 2,194 homes in backlog, with an aggregate sales value of \$896.7 million. Homes included in year-end backlog are typically included in homes delivered in the subsequent year.

Warranty

We provide certain warranties in connection with our homes and also perform inspections with the buyer of each home immediately prior to delivery and as needed after a home is delivered. The Company offers both a transferable limited warranty program ("Home Builder's Limited Warranty") and a transferable structural limited warranty. The Home Builder's Limited Warranty covers construction defects for a statutory period based on geographic market and state law (currently ranging from five to ten years for the states in which the Company operates) and includes a mandatory arbitration clause. The structural warranty is for 10 or 15 years for homes sold after December 1, 2015 and 10 or 30 years for homes sold after April 25, 1998 and on or before December 1, 2015. We also pass along to our homebuyers all warranties provided by the manufacturers or suppliers of components installed in each home. Although our subcontractors are generally required to repair and replace any product or labor defects during their respective warranty periods, we are ultimately responsible to the homeowner for making such repairs during our applicable warranty period. Accordingly, we have estimated and established reserves for both our Home Builder's Limited Warranty and potential future structural warranty costs based on the number of home deliveries and historical data trends for our communities. In the case of the structural warranty, we also employ an actuary to assist in the determination of our future costs on an annual basis. Our warranty expense (excluding stucco-related repair costs in certain of our Florida communities in 2018 and 2017 (as more fully

discussed in [Note 8](#) to our Consolidated Financial Statements)) was approximately 0.7% of total housing revenue in 2019 and 0.8% of total housing revenue in each of 2018 and 2017.

Land Acquisition and Development

We continuously evaluate land acquisition opportunities in the normal course of our homebuilding business, and we focus on both replenishing our lot positions and adding to our lot positions in key submarkets to expand our market share. Our goal is to maintain an approximate three to five-year supply of lots, including lots controlled under option contracts and purchase agreements, which we believe provides an appropriate horizon for addressing regulatory matters and land development and the subsequent build-out of the homes in each community, and allows us to manage our business plan for future home deliveries.

We seek to meet our need for lots by obtaining advantageous land positions in desirable locations in a cost effective manner that is responsive to market conditions and maintains our financial strength and liquidity. Before acquiring land, we complete extensive comparative studies and analyses, which assist us in evaluating the economic feasibility of each land acquisition. We consider a number of factors, including projected rates of return, estimated gross margins, and projected pace of absorption and sales prices of the homes to be built, all of which are impacted by our evaluation of population and employment growth patterns, demographic trends and competing new home subdivisions and resales in the relevant sub-market.

We attempt to acquire land with a minimum cash investment and negotiate takedown options when available from sellers. We also restrict the use of guarantees or commitments in our land contracts to limit our financial exposure to the amounts invested in the property and pre-development costs during the life of the community we are developing. We believe this approach significantly reduces our risk. In addition, we generally obtain necessary development approvals before we acquire land. We acquire land primarily through contingent purchase agreements, which typically condition our obligation to purchase land upon approval of zoning and utilities, as well as our evaluation of soil and subsurface conditions, environmental and wetland conditions, market analysis, development costs, title matters and other property-related criteria. All land and lot purchase agreements and the funding of land purchases require the approval of our corporate land acquisition committee, which is comprised of our senior management team and key operating and financial executives. Further details relating to our land option agreements are included in [Note 8](#) to our Consolidated Financial Statements.

In 2019, we continued to increase our investments in land acquisition, land development and housing inventory to meet demand and expand our operations in certain markets. In 2019 and 2018, we developed over 81% and 74%, respectively, of our lots internally, primarily due to a lack of availability of developed lots in desirable locations in the market. Raw land that requires development generally remains more available. In order to minimize our investment and risk of large exposure in a single location, we have periodically partnered with other land developers or homebuilders to share in the cost of land investment and development through joint ownership and development agreements, joint ventures, and other similar arrangements. For joint venture arrangements where a special purpose entity is established to own the property, we enter into limited liability company or similar arrangements (“LLCs”) with the other partners. Further details relating to our joint venture arrangements are included in [Note 6](#) to our Consolidated Financial Statements.

During the development of lots, we are required by some municipalities and other governmental authorities to provide completion bonds or letters of credit for sewer, streets and other improvements. 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 homes 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.

Our ability to continue development activities over the long-term will depend upon, among other things, a suitable economic environment and our continued ability to locate suitable parcels of land, enter into options or agreements to purchase such land, obtain governmental approvals for such land, and consummate the acquisition and development of such land.

In the normal course of our homebuilding business, we balance the economic risk of owning lots and land with the necessity of having lots available for construction of our homes. The following table sets forth our land position in lots (including lots held in joint venture arrangements) at December 31, 2019:

Region	Lots Owned				Lots Under Contract	Total
	Developed Lots	Lots Under Development	Undeveloped Lots ^(a)	Total Lots Owned		
Northern	3,415	508	2,934	6,857	6,207	13,064
Southern	2,805	1,877	3,127	7,809	12,386	20,195
Total	6,220	2,385	6,061	14,666	18,593	33,259

(a) Includes our interest in raw land held by joint venture arrangements expected to be developed into 917 lots.

Financial Services

We sell our homes to customers who generally finance their purchases through mortgages. M/I Financial provides our customers with competitive financing and coordinates and expedites the loan origination transaction through the steps of loan application, loan approval, and closing and title services. M/I Financial provides financing services in all of our housing markets. We believe that our ability to offer financing to customers on competitive terms as a part of the sales process is an important factor in completing sales.

M/I Financial has been approved by the U.S. Department of Housing and Urban Development, FHA, VA and USDA to originate mortgages that are insured and/or guaranteed by these entities. In addition, M/I Financial has been approved by the Federal Home Loan Mortgage Corporation (“Freddie Mac”) and the Federal National Mortgage Association (“Fannie Mae”) as a seller and servicer of mortgages and as a Government National Mortgage Association (“Ginnie Mae”) issuer. Our agency approvals, along with a sub-servicing relationship, allow us to sell loans on either a servicing released or servicing retained basis. This option provides flexibility and additional financing options to our customers.

We also provide title and closing services to purchasers of our homes through our 100%-owned subsidiaries, TransOhio Residential Title Agency Ltd., M/I Title Agency Ltd., and M/I Title LLC. Through these entities, we serve as a title insurance agent by providing title insurance policies and examination and closing services to purchasers of our homes in the Columbus, Cincinnati, Minneapolis/St. Paul, Tampa, Orlando, Sarasota, San Antonio, Houston, Dallas/Fort Worth, and Austin markets. In addition, TransOhio Residential Title Agency Ltd. provides examination and title insurance services to our housing markets in the Raleigh, Charlotte, Chicago and Indianapolis markets. We assume no underwriting risk associated with the title policies.

Corporate Operations

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

- establish strategy, goals and operating policies;
- ensure brand integrity and consistency across all local and regional communications;
- monitor and manage the performance of our operations;
- allocate capital resources;
- provide financing and perform all cash management functions for the Company, and maintain our relationship with lenders;
- maintain centralized information and communication systems; and
- maintain centralized financial reporting, internal audit functions, and risk management.

Competition

The homebuilding industry is fragmented and highly competitive. We operate as a top ten builder in the majority of our markets. We compete with numerous national, regional, and local homebuilders in each of the geographic areas in which we operate. Our competition ranges from small local builders to larger regional builders to publicly-owned builders and developers, some of which have greater financial, marketing, land acquisition, and sales resources than us. Previously owned homes and the availability of rental housing provide additional competition. We compete primarily on the basis of price, location, design, quality, service, and reputation. Our financial services operations compete with other mortgage lenders to arrange financings for homebuyers. Principal competitive factors include interest rates and other features of mortgage loan products available to the consumer.

Government Regulation and Environmental Matters

Our homebuilding and financial services operations are subject to compliance with numerous laws and regulations. Our homebuilding operations are subject to various local, state and federal statutes, ordinances, rules and regulations concerning the protection of health and the environment, including storm water and surface water management, soil, groundwater and wetlands protection, subsurface conditions and air quality protection and enhancement. Environmental laws and existing conditions may result in delays, cause us to incur substantial compliance and other costs and prohibit or severely restrict homebuilding activity in environmentally sensitive regions or areas.

Our homebuilding operations are also subject to various local, state and federal statutes, ordinances, rules and regulations concerning zoning, building, design, construction, sales, and similar matters. These regulations increase the cost to produce and market our products, and in some instances, delay our developers' ability to deliver finished lots to us. Counties and cities in which we build homes have at times declared moratoriums on the issuance of building permits and imposed other restrictions in the areas in which sewage treatment facilities and other public facilities do not reach minimum standards. In addition, our homebuilding operations are regulated in certain areas by restrictive zoning and density requirements that limit the number of homes that can be built within the boundaries of a particular area. We may also experience extended timelines for receiving required approvals from municipalities or other government agencies that can delay our anticipated development and construction activities in our communities.

Our mortgage company and title insurance agencies are subject to various local, state and federal statutes, ordinances, rules and regulations (including requirements for participation in programs offered by FHA, VA, USDA, Ginnie Mae, Fannie Mae and Freddie Mac). These regulations restrict certain activities of our financial services operations as further described in our description of "Risk Factors" below in Item 1A. In addition, our financial services operations are subject to regulation at the state and federal level, including regulations issued by the Consumer Financial Protection Bureau (the "CFPB"), with respect to specific origination, selling and servicing practices.

Seasonality

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

Employees

At December 31, 2019, we employed 1,401 people (including part-time employees), of which 1,110 were employed in homebuilding operations, 186 were employed in financial services and 105 were employed in management and administrative services. No employees are represented by a collective bargaining agreement.

Available Information

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended ("Exchange Act"), and file annual, quarterly and current reports, proxy statements and other information with the SEC. These filings are available to the public on the SEC's website at www.sec.gov.

Our website address is www.mihomes.com. We make available, free of charge, on or through our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our website also includes printable versions of our Corporate Governance Guidelines, our Code of Business Conduct and Ethics, and the charters for each of our Audit, Compensation, and Nominating and Corporate Governance Committees. The contents of our website are not incorporated by reference in, or otherwise made a part of, this Annual Report on Form 10-K.

Item 1A. RISK FACTORS

Our future results of operations, financial condition and liquidity and the market price for our securities are subject to numerous risks, many of which are driven by factors that we cannot control. The following cautionary discussion of risks, uncertainties and assumptions relevant to our business includes factors we believe could cause our actual results to differ materially from expected and historical results. Other factors beyond those listed below, including factors unknown to us and factors known to us which we have not currently determined to be material, could also adversely affect our business, results of operations, financial condition, prospects and cash flows. Also see “Special Note of Caution Regarding Forward-Looking Statements” above.

Homebuilding Market and Economic Risks

Although the homebuilding industry generally experienced improved conditions in 2019, a renewed deterioration in industry conditions or in broader economic conditions could have adverse effects on our business and results of operations.

The homebuilding industry is cyclical and affected by changes in general economic, real estate and other business conditions that could adversely affect our results of operations, financial condition and cash flows. Certain economic, real estate and other business conditions that have significant effects on the homebuilding industry include:

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

These above conditions, among others, are complex and interrelated. Adverse changes in such business conditions may have a significant negative impact on our business. The negative impact may be national in scope but may also negatively affect some of the regions or markets in which we operate more than others. When such adverse conditions affect any of our larger markets, those conditions could have a proportionately greater impact on us than on some other homebuilding companies. We cannot predict their occurrence or severity, nor can we provide assurance that our strategic responses to their impacts would be successful.

In the event of a downturn in the homebuilding and mortgage lending industries, or if the national economy weakens, we could experience declines in the market value of our inventory and demand for our homes, which could have a significantly negative impact on our gross margins from home sales and financial condition and results of operations. Additional external factors, such as foreclosure rates, mortgage pricing and availability, and unemployment rates, could also negatively impact our results.

Potential customers may be less willing or able to buy our homes if any of these conditions have a negative impact on the homebuilding industry. In the future, our pricing strategies may be limited by market conditions. We may be unable to change the mix of our home offerings, reduce the costs of the homes we build or offer more affordable homes to maintain our gross margins or satisfactorily address changing market conditions in other ways. In addition, cancellations of home sales contracts in backlog may increase.

While the absorption pace of our new contracts per community improved in 2019 compared to 2018, a decline in sales activity could adversely affect our results of operations, financial condition and cash flows.

Our financial services business is closely related to our homebuilding business, as it originates mortgage loans principally on behalf of purchasers of the homes we build. A decrease in the demand for our homes because of the existence of any of the foregoing conditions could also adversely affect the financial results of this segment of our business.

Additionally, we may be subject to increased counterparty risks, including purchasers of mortgages originated by M/I Financial being unwilling or unable to perform their obligations to us. To the extent a third-party is unwilling or unable to perform such obligations, our financial condition, results of operations and/or cash flows could be negatively impacted.

Increased competition levels in the homebuilding and mortgage lending industries could result in a reduction in our new contracts and homes delivered, along with decreases in the average sales prices of sold and delivered homes and/or decreased mortgage originations, which would have a negative impact on our results of operations.

The homebuilding industry is fragmented and highly competitive. We compete with numerous public and private homebuilders, including some that are substantially larger than us and may have greater financial resources than we do. We also compete with community developers and land development companies, some of which are also homebuilders or affiliates of homebuilders. Homebuilders compete for customers, land, building materials, subcontractor labor and financing. Competition for home orders primarily is based upon home sales price, location of property, home style, financing available to prospective homebuyers, quality of homes built, customer service and general reputation in the community, and may vary by market, sub-market and even by community. Additionally, competition within the homebuilding industry can be impacted by an excess supply of new and existing homes available for sale resulting from a number of factors including, among other things, increases in unsold started homes available for sale and increases in home foreclosures. Increased competition may cause us to decrease our home sales prices and/or increase home sales incentives in an effort to generate new home sales and maintain homes in backlog until they close. Increased competition can also result in us selling fewer homes or experiencing a higher number of cancellations by homebuyers. These competitive pressures may negatively impact our future financial and operating results.

Through our financial services operations, we also compete with numerous banks and other mortgage bankers and brokers, some of which are larger than us and may have greater financial resources than we do. Competitive factors that affect our consumer services operations include pricing, mortgage loan terms, underwriting criteria and customer service. To the extent that we are unable to adequately compete with other companies that originate mortgage loans, the results of operations from our mortgage operations may be negatively impacted.

A reduction in the availability of mortgage financing or a significant increase in mortgage interest rates or down payment requirements could adversely affect our business.

Any reduction in the availability of the financing provided by Fannie Mae and Freddie Mac could adversely affect interest rates, mortgage availability and our sales of new homes and origination of mortgage loans.

FHA and VA mortgage financing support continues to be an important factor in marketing our homes. Any increases in down payment requirements, lower maximum loan amounts, or limitations or restrictions on the availability of FHA and VA financing support could adversely affect interest rates, mortgage availability and our sales of new homes and origination of mortgage loans.

Even if potential customers do not need financing, changes in the availability of mortgage products may make it harder for them to sell their current homes to potential buyers who need financing, which may lead to lower demand for new homes.

Mortgage interest rates remained near historical lows for the last several years. Increases in interest rates increase the costs of owning a home and could reduce the demand for our homes.

Many of our homebuyers obtain financing for their home purchases from M/I Financial. If, due to the factors discussed above, M/I Financial is limited from making or unable to make loan products available to our homebuyers, our home sales and our homebuilding and financial services results of operations may be adversely affected.

If land is not available at reasonable prices or terms, our homes sales revenue and results of operations could be negatively impacted and/or we could be required to scale back our operations in a given market.

Our operations depend on our ability to obtain land for the development of our communities at reasonable prices and with terms that meet our underwriting criteria. Our ability to obtain land for new communities may be adversely affected by changes in the general availability of land, the willingness of land sellers to sell land at reasonable prices, competition for available land, availability of financing to acquire land, zoning, regulations that limit housing density and other market conditions. If the supply of land, and especially developed lots, appropriate for development of communities is limited because of these factors, or for any other reason, the number of homes that we build and sell may decline. To the extent that we are unable to timely purchase land or enter into new contracts for the purchase of land at reasonable prices, due to the lag between the time we acquire land and the time we begin selling homes, our revenue and results of operations could be negatively impacted and/or we could be required to scale back our operations in a given market.

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

We must anticipate demand for new homes several years prior to homes being sold to homeowners. There are significant risks inherent in controlling or purchasing land, especially as the demand for new homes fluctuates and land purchases become more competitive, as has recently been the case, which can increase the costs of land. There is often a significant lag time between when we acquire land for development and when we sell homes in neighborhoods we have planned, developed and constructed. The value of undeveloped land, building lots and housing inventories can fluctuate significantly as a result of changing market conditions. In addition, inventory carrying costs can be significant, and fluctuations in value can reduce profits. Economic conditions could require that we sell homes or land at a loss, or hold land in inventory longer than planned, which could significantly impact our financial condition, results of operations, cash flows and stock performance. Additionally, if conditions in the homebuilding industry decline in the future, we may be required to evaluate our inventory for potential impairment, which may result in additional valuation adjustments, which could be significant and could negatively impact our financial results and condition. We cannot make any assurances that the measures we employ to manage inventory risks and costs will be successful.

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

The residential construction industry experiences labor and material shortages and risks from time to time, including: work stoppages; labor disputes; shortages in qualified subcontractors and construction personnel; lack of availability of adequate utility infrastructure and services; our need to rely on local subcontractors who may not be adequately capitalized or insured; and delays in availability, or fluctuations in prices, of building materials. These labor and material shortages and risks can be more severe during periods of strong demand for housing or during periods in which the markets where we operate experience natural disasters that have a significant impact on existing residential and commercial structures. Any of these circumstances could delay the start or completion of our communities, increase the cost of developing one or more of our communities and increase the construction cost of our homes. To the extent that market conditions prevent the recovery of increased costs, including, among other things, subcontracted labor, developed lots, building materials, and other resources, through higher sales prices, our gross margins from home sales and results of operations could be adversely affected.

Increased costs of lumber, framing, concrete, steel and other building materials could increase our construction costs. We generally are unable to pass on increases in construction costs to customers who have already entered into sales contracts, as those sales contracts generally fix the price of the homes at the time the contracts are signed, which may occur before construction begins. During 2019, we experienced increases in construction costs primarily due to the competitive market for skilled labor and increased material costs resulting from inflationary pressures and normal supply and demand dynamics of the industry. Increases in construction costs that exceeded our increase in home pricing eroded our gross margins from home sales during 2019 and may continue to reduce our gross margins, particularly if pricing competition restricts our ability to pass on any additional costs of materials or labor, thereby decreasing our gross margins from home sales.

We depend on the continued availability of and satisfactory performance of subcontracted labor for the construction of our homes and to provide related materials. We have experienced, and may continue to experience, modest skilled labor and material shortages in certain of our markets as supply adjusts to demand. The cost of labor may also be adversely affected by shortages of qualified subcontractors and construction personnel, changes in laws and regulations relating to union activity and changes in immigration laws and trends in labor migration. We cannot provide any assurance that there will be a sufficient supply of materials or a sufficient supply of, or satisfactory performance by, these unaffiliated third-party subcontractors, which could have a material adverse effect on our business.

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

Prior to the enactment of the Tax Cuts and Jobs Act of 2017 (the “2017 Tax Act”), which was signed into law in December 2017, significant expenses of owning a home, including residential consumer mortgage loan interest costs and real estate taxes, generally were deductible expenses for the purpose of calculating an individual’s federal, and in some cases state, taxable income, subject to various limitations. The 2017 Tax Act established new limits on the federal tax deductions individual taxpayers may take on mortgage loan interest payments and on state and local taxes, including real estate taxes. Through the end of 2025, under the 2017 Tax Act, the annual deduction for real estate taxes and state and local income or sales taxes generally is limited to \$10,000. Furthermore, through the end of 2025, the deduction for mortgage interest is only available with respect to acquisition indebtedness that does not exceed \$750,000. The 2017 Tax Act also raised the standard deduction to help fully or partially offset these new limits. These changes could, however, reduce the actual or perceived affordability of homeownership, and therefore the demand for homes, and/or have a moderating impact on home sales prices, especially in areas with relatively high housing prices and/or high state and local income taxes and real estate taxes. In addition, if the federal government further changes, or a state government changes, its income tax laws by eliminating or substantially reducing the income tax benefits associated with homeownership, the

after-tax cost of owning a home could measurably increase. Any increases in personal income tax rates and/or tax deduction limits or restrictions enacted at the federal or state levels, including those enacted under the 2017 Tax Act, could adversely impact demand for and/or selling prices of new homes, including our homes, and the effect on our consolidated financial statements could be adverse and material.

We may not be able to offset the impact of inflation through price increases.

Inflation can have a long-term impact on us because if the costs of land, materials and labor increase, we would need to increase the sale prices of our homes to maintain satisfactory margins. In a highly inflationary environment, we may not be able to raise home prices enough to keep pace with the increased costs of land and house construction, which could reduce our profit margins. In addition, significant inflation is often accompanied by higher interest rates, which have a negative impact on demand for our homes, and would likely also increase our cost of capital. Although the overall rate of inflation has been low for the last several years, we have experienced increases in the prices of land and construction costs that in some cases have exceeded our ability to raise the sales prices on our homes, which put downward pressure on our margins in 2019, and such pressures may continue.

Our limited geographic diversification could adversely affect us if the demand for new homes in our markets declines.

We have operations in Ohio, Indiana, Illinois, Michigan, Minnesota, North Carolina, Florida and Texas. Our limited geographic diversification could adversely impact us if the demand for new homes or the level of homebuilding activity in our current markets declines, since there may not be a balancing opportunity in a stronger market in other geographic regions.

Changes in energy prices may have an adverse effect on the economies in certain markets we operate in and our cost of building homes.

The economies of some of the markets in which we operate are impacted by the health of the energy industry. To the extent that energy prices decline, the economies of certain of our markets may be negatively impacted which could have a material adverse effect on our business. Furthermore, the pricing offered by our suppliers and subcontractors can be adversely affected by increases in various energy costs resulting in a negative impact on our financial condition, results of operations and cash flows.

Operational Risks

We may not be successful in integrating acquisitions or implementing our growth strategies or in achieving the benefits we expect from such acquisitions and strategies.

We may in the future consider growth or expansion of our operations in our current markets or in other areas of the country, whether through strategic acquisitions of homebuilding companies or otherwise. The magnitude, timing and nature of any future expansion will depend on a number of factors, including our ability to identify suitable additional markets and/or acquisition candidates, the negotiation of acceptable terms, our financial capabilities and general economic and business conditions. Our expansion into new or existing markets, whether through acquisition or otherwise, could have a material adverse effect on our liquidity and/or profitability, and any future acquisitions could result in the dilution of existing shareholders if we issue our common shares as consideration. Acquisitions also involve numerous risks, including difficulties in the assimilation of the acquired company's operations, the incurrence of unanticipated liabilities or expenses, the risk of impairing inventory and other assets related to the acquisition, the diversion of management's attention and resources from other business concerns, risks associated with entering markets in which we have limited or no direct experience and the potential loss of key employees of the acquired company. In addition, we may not be able to improve our earnings as a result of acquisitions, and our failure to successfully identify and manage future acquisitions could have an adverse impact on our operating results.

We may write-off intangible assets, such as goodwill.

We recorded goodwill in connection with our acquisition of the assets and operations of Pinnacle Homes. On an ongoing basis, we will evaluate whether facts and circumstances indicate any impairment of the value of intangible assets. As circumstances change, we cannot provide any assurance that we will realize the value of these intangible assets. If we determine that a significant impairment has occurred, we will be required to write-off the impaired portion of intangible assets, which could have a material adverse effect on our results of operations in the period in which the write-off occurs.

We have financial needs that we meet through the capital markets, including the debt and secondary mortgage markets, and disruptions in these markets could have an adverse impact on our results of operations, financial position and/or cash flows.

We have financial needs that we meet through the capital markets, including the debt and secondary mortgage markets. Our requirements for additional capital, whether to finance operations or to service or refinance our existing indebtedness, fluctuate

as market conditions and our financial performance and operations change. We cannot provide assurances that we will maintain cash reserves and generate cash flow from operations in an amount sufficient to enable us to service our debt or to fund other liquidity needs.

The availability of additional capital, whether from private capital sources or the public capital markets, fluctuates as our financial condition and general market conditions change. There may be times when the private capital markets and the public debt or equity markets lack sufficient liquidity or when our securities cannot be sold at attractive prices, in which case we would not be able to access capital from these sources. In addition, a weakening of our financial condition or deterioration in our credit ratings could adversely affect our ability to obtain necessary funds. Even if financing is available, it could be costly or have other adverse consequences.

There are a limited number of third-party purchasers of mortgage loans originated by our financial services operations. The exit of third-party purchasers of mortgage loans from the business, reduced investor demand for mortgage loans and mortgage-backed securities in the secondary mortgage markets and increased investor yield requirements for those loans and securities may have an adverse impact on our results of operations, financial position and/or cash flows.

The M/I Financial warehouse facilities will expire in 2020.

M/I Financial uses two mortgage warehouse facilities to finance eligible residential mortgage loans originated by M/I Financial, a \$125 million secured mortgage warehousing agreement (the “MIF Mortgage Warehousing Agreement”) and a \$65 million mortgage repurchase facility (the “MIF Mortgage Repurchase Facility”). These facilities will expire on June 19, 2020 and October 26, 2020, respectively. If we are unable to renew or replace the warehousing facilities when they mature, the activities of our financial services segment could be impeded and our home sales and our homebuilding and financial services results of operations may be adversely affected.

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

We incur many costs even before we begin to build homes in a community. These include costs of preparing land and installing roads, sewage and other utilities, as well as taxes and other costs related to ownership of the land on which we plan to build homes. Reducing the rate at which we build homes extends the length of time it takes us to recover these additional costs. Also, we frequently enter into contracts to purchase land and make deposits that may be forfeited if we do not fulfill our purchase obligation within specified periods.

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

M/I Financial sells a portion of the loans originated on a servicing released, non-recourse basis, although M/I Financial remains liable for certain limited representations and warranties related to loan sales and for repurchase obligations in certain limited circumstances. If M/I Financial is unable to sell to viable purchasers in the marketplace, our ability to originate and sell mortgage loans at competitive prices could be limited which would negatively affect our operations and our profitability. Additionally, if there is a significant decline in the secondary mortgage market, our ability to sell mortgages could be adversely impacted and we would be required to make arrangements with banks or other financial institutions to fund our buyers’ closings. If we became unable to sell loans into the secondary mortgage market or directly to Fannie Mae and Freddie Mac or issue Ginnie Mae securities, we would have to modify our origination model, which, among other things, could significantly reduce our ability to sell homes.

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

M/I Financial originates mortgages, primarily for our homebuilding customers. A portion of the mortgage loans originated are sold on a servicing released, non-recourse basis, although we remain liable for certain limited representations, such as fraud, and warranties related to loan sales. Accordingly, mortgage investors have in the past and could in the future seek to have us buy back loans or compensate them for losses incurred on mortgages we have sold based on claims that we breached our limited representations or warranties. There can be no assurance that we will not have significant liabilities in respect of such claims in the future, which could exceed our reserves, or that the impact of such claims on our results of operations will not be material.

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

In addition to the legal proceedings related to stucco discussed below, the Company and certain of its subsidiaries have been named as defendants in certain other legal proceedings which are incidental to our business. While management currently believes that the ultimate resolution of these other legal proceedings, individually and in the aggregate, will not have a material adverse effect on the Company's results of operations, financial condition, and cash flows, such legal proceedings are subject to inherent uncertainties. The Company has recorded a liability to provide for the anticipated costs, including legal defense costs, associated with the resolution of these other legal proceedings. However, the possibility exists that the costs to resolve these legal proceedings could differ from the recorded estimates and, therefore, have a material adverse effect on the Company's results of operations, financial condition, and cash flows.

Similarly, if additional legal proceedings are filed against us in the future, including with respect to stucco installation in our Florida communities, the negative outcome of one or more of such legal proceedings could have a material adverse effect on our results of operations, financial condition and cash flows.

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

Our \$500 million unsecured revolving credit facility dated July 18, 2013, as amended, with M/I Homes, Inc. as borrower and guaranteed by the Company's wholly-owned homebuilding subsidiaries (the "Credit Facility"), the indenture governing our newly issued 4.95% Senior Notes due 2028 (the "2028 Senior Notes") (see [Note 11](#) to our Consolidated Financial Statements for additional information) and the indenture governing our 5.625% Senior Notes due 2025 (the "2025 Senior Notes") impose restrictions on our operations and activities. These restrictions and/or our failure to comply with the terms of our indebtedness could have a material adverse effect on our results of operations, financial condition and ability to operate our business.

Under the terms of the Credit Facility, we are required, among other things, to maintain compliance with various covenants, including financial covenants relating to a minimum consolidated tangible net worth requirement, a minimum interest coverage ratio or liquidity requirement, and a maximum leverage ratio. Failure to comply with these covenants or any of the other restrictions of the Credit Facility, whether because of a decline in our operating performance or otherwise, could result in a default under the Credit Facility. If a default occurs, the affected lenders could elect to declare the indebtedness, together with accrued interest and other fees, to be immediately due and payable, which in turn could cause a default under the documents governing any of our other indebtedness that is then outstanding if we are not able to repay such indebtedness from other sources. If this happens and we are unable to obtain waivers from the required lenders, the lenders could exercise their rights under such documents, including forcing us into bankruptcy or liquidation.

The indenture governing the 2028 Senior Notes and the indenture governing the 2025 Senior Notes also contain covenants that may restrict our ability to operate our business and may prohibit or limit our ability to grow our operations or take advantage of potential business opportunities as they arise. Failure to comply with these covenants or any of the other restrictions or covenants contained in the indenture governing the 2028 Senior Notes and/or the indenture governing the 2025 Senior Notes could result in a default under the applicable indenture, in which case holders of the 2028 Senior Notes and/or the 2025 Senior Notes may be entitled to cause the sums evidenced by such notes to become due immediately. This acceleration of our obligations under the 2028 Senior Notes and the 2025 Senior Notes could force us into bankruptcy or liquidation and we may be unable to repay those amounts without selling substantial assets, which might be at prices well below the long-term fair values and carrying values of the assets. Our ability to comply with the foregoing restrictions and covenants may be affected by events beyond our control, including prevailing economic, financial and industry conditions.

Our indebtedness could adversely affect our financial condition, and we and our subsidiaries may incur additional indebtedness, which could increase the risks created by our indebtedness.

As of December 31, 2019, we had approximately \$617.9 million of indebtedness (net of debt issuance costs), excluding issuances of letters of credit, the MIF Mortgage Warehousing Agreement and the MIF Mortgage Repurchase Facility, and we had \$364.9 million of remaining availability for borrowings under the Credit Facility. In addition, under the terms of the Credit Facility, the indentures governing the 2028 Senior Notes and the 2025 Senior Notes and the documents governing our other indebtedness, we have the ability, subject to applicable debt covenants, to incur additional indebtedness. The incurrence of additional indebtedness could magnify other risks related to us and our business. Our indebtedness and any future indebtedness we may incur could have a significant adverse effect on our future financial condition.

For example:

- a significant portion of our cash flow may be required to pay principal and interest on our indebtedness, which could reduce the funds available for working capital, capital expenditures, acquisitions or other purposes;
- borrowings under the Credit Facility bear, and borrowings under any new facility could bear, interest at floating rates, which could result in higher interest expense in the event of an increase in interest rates;
- the terms of our indebtedness could limit our ability to borrow additional funds or sell assets to raise funds, if needed, for working capital, capital expenditures, acquisitions or other purposes;
- our debt level and the various covenants contained in the Credit Facility, the indentures governing our 2028 Senior Notes and 2025 Senior Notes and the documents governing our other indebtedness could place us at a relative competitive disadvantage as compared to some of our competitors; and
- the terms of our indebtedness could prevent us from raising the funds necessary to repurchase all of the 2028 Senior Notes and the 2025 Senior Notes tendered to us upon the occurrence of a change of control, which, in each case, would constitute a default under the applicable indenture, which in turn could trigger a default under the Credit Facility and the documents governing our other indebtedness.

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

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

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

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

We could be adversely affected by efforts to impose joint employer liability on us for labor law violations committed by our subcontractors.

Our homes are constructed by employees of subcontractors and other parties. We have limited ability to control what these parties pay their employees or the rules they impose on their employees. However, various governmental agencies may seek to hold parties like us responsible for violations of wage and hour laws and other labor laws by subcontractors. A ruling by the National Labor Relations Board (“NLRB”) that a company, under some circumstances, could be held responsible for labor violations by its contractors was withdrawn, and the NLRB is currently considering a rule that would make it less likely that we could be deemed to be a joint employer of our subcontractors’ employees. However, future rulings by the NLRB or other courts or governmental agencies could make us responsible for labor violations committed by our subcontractors. Governmental rulings that hold us responsible for labor practices by our subcontractors could create substantial exposures for us under our subcontractor relationships.

Because of the seasonal nature of our business, our quarterly operating results can fluctuate.

We experience noticeable seasonality and quarter-to-quarter variability in homebuilding activity levels. In general, the number of homes delivered and associated home sales revenue increase during the third and fourth quarters, compared with the first and second quarters. We believe that this type of seasonality reflects the historical tendency of homebuyers to purchase new homes in the spring and summer with deliveries scheduled in the fall or winter, as well as the scheduling of construction to accommodate seasonal weather conditions in certain markets. There can be no assurance that this seasonality pattern will continue to exist in future reporting periods. In addition, as a result of such variability, our historical performance may not be a meaningful indicator of future results.

Homebuilding is subject to construction defect, product liability and warranty claims that can be significant and costly.

As a homebuilder, we are subject to construction defect, product liability and warranty claims in the ordinary course of business. These claims are common in the homebuilding industry and can be significant and costly. We and many of our subcontractors have general liability, property, workers compensation and other business insurance. This insurance is intended to protect us against a portion of our risk of loss from claims, subject to certain self-insured retentions, deductibles and other coverage limits. The availability of insurance for construction defects, and the scope of the coverage, are currently limited and the policies that can be obtained are costly and often include exclusions. There can be no assurance that coverage will not be further restricted or become more costly. Also, at times we have waived certain provisions of our customary subcontractor insurance requirements, which increases our and our insurers' exposure to claims and increases the possibility that our insurance will not be adequate to protect us for all the costs we incur.

We record warranty and other reserves for the homes we sell based on a number of factors, including historical experience in our markets, insurance and actuarial assumptions and our judgment with respect to the qualitative risks associated with the types of homes we build. Because of the high degree of judgment required in determining these liability reserves, our actual future liability could differ significantly from our reserves. Given the inherent uncertainties, we cannot provide assurance that our insurance coverage, our subcontractor arrangements and our reserves will be adequate to address all of our construction defect, product liability and warranty claims. If the costs to resolve these claims exceed our estimates, our results of operations, financial condition and cash flows could be adversely affected.

We have received claims related to stucco installation from homeowners in certain of our communities in our Tampa and Orlando, Florida markets and have been named as a defendant in legal proceedings initiated by certain of such homeowners. While we have estimated our overall future stucco repair costs, our review of the stucco-related issues in our Florida communities is ongoing. Our estimate of our overall stucco repair costs is based on our judgment, various assumptions and internal data. Given the inherent uncertainties, we cannot provide assurance that the final costs to resolve these claims will not exceed our accrual and adversely affect our results of operations, financial condition and cash flows. See [Note 1](#) and [Note 8](#) to the Company's Consolidated Financial Statements for further information regarding these stucco claims and our warranty reserves.

Our subcontractors can expose us to warranty and other risks.

We rely on subcontractors to construct our homes, and in many cases, to select and obtain building materials. Despite our detailed specifications and quality control procedures, in some cases, it may be determined that subcontractors used improper construction processes or defective materials in the construction of our homes. Although our subcontractors have principal responsibility for defects in the work they do, we have ultimate responsibility to the homebuyers. When we find these issues, we repair them in accordance with our warranty obligations. Improper construction processes and defective products widely used in the homebuilding industry can result in the need to perform extensive repairs to large numbers of homes. The cost of complying with our warranty obligations may be significant if we are unable to recover the cost of repairs from subcontractors, materials suppliers and insurers.

We also can suffer damage to our reputation, and may be exposed to possible liability, if subcontractors fail to comply with applicable laws, including laws involving things that are not within our control. When we learn about potentially improper practices by subcontractors, we try to cause the subcontractors to discontinue them. However, we may not always be able to cause our subcontractors to discontinue potentially improper practices, and even when we can, we may not be able to avoid claims against us relating to prior actions of our subcontractors.

Damage to our corporate reputation or brands from negative publicity could adversely affect our business, financial results and/or stock price.

Adverse publicity related to our company, industry, personnel, operations or business performance may cause damage to our corporate reputation or brands and may generate negative sentiment, potentially affecting the performance of our business or our stock price, regardless of its accuracy. Negative publicity can be disseminated rapidly through digital platforms, including social media, websites, blogs and newsletters. Customers and other interested parties value readily available information and often act on such information without further investigation and without regard to its accuracy. The harm may be immediate without affording us an opportunity for redress or correction, and our success in preserving our brand image depends on our ability to recognize, respond to and effectively manage negative publicity in a rapidly changing environment. Adverse publicity or unfavorable commentary from any source could damage our reputation, reduce the demand for our homes or negatively impact the morale and performance of our employees, which could adversely affect our business.

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

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

We are subject to extensive government regulations, which could restrict our business and cause us to incur significant expense.

The homebuilding industry is subject to numerous local, state, and federal statutes, ordinances, rules, and regulations concerning building, zoning, sales, consumer protection, the environment, and similar matters. This regulation affects construction activities as well as sales activities, mortgage lending activities, land availability and other dealings with homebuyers. These statutes, ordinances, rules, and regulations, and any failure to comply therewith, could give rise to additional liabilities or expenditures and have an adverse effect on our results of operations, financial condition or business.

We must also obtain licenses, permits and approvals from various governmental authorities in connection with our development activities, and these governmental authorities often have broad discretion in exercising their approval authority. Municipalities may also restrict or place moratoriums on the availability of utilities, such as water and sewer taps. In some areas, municipalities may enact growth control initiatives, which will restrict the number of building permits available in a given year. In addition, we may be required to apply for additional approvals or modify our existing approvals because of changes in local circumstances or applicable law. If municipalities in which we operate take actions like these, it could have an adverse effect on our business by causing delays, increasing our costs, or limiting our ability to operate in those municipalities.

We incur substantial costs related to compliance with legal and regulatory requirements. Any increase in legal and regulatory requirements may cause us to incur substantial additional costs or, in some cases, cause us to determine that certain property is not feasible for development.

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

We use information technology, digital communications and other computer resources to carry out important operational and marketing activities and to maintain our business records. We have implemented systems and processes intended to address ongoing and evolving cyber-security risks, secure our information technology, applications and computer systems, and prevent unauthorized access to or loss of sensitive, confidential and personal data. We also provide regular personnel awareness training regarding potential cyber-security threats, including the use of internal tips, reminders and phishing assessments, to help ensure employees remain diligent in identifying potential risks. In addition, we have deployed monitoring capabilities to support early detection, internal and external escalation, and effective responses to potential anomalies. Many of our information technology and other computer resources are provided to us and/or maintained on our behalf by third-party service providers pursuant to agreements that specify to varying degrees certain security and service level standards. We also rely upon our third-party service providers to maintain effective cyber-security measures to keep our information secure and to carry cyber insurance. Although we and our service providers employ what we believe are adequate security, disaster recovery and other preventative and corrective measures, our security measures, taken as a whole, may not be sufficient for all possible situations and may be vulnerable to, among other things, hacking, employee error, system error and faulty password management.

Our ability to conduct our business may be impaired if these informational technology and computer resources, including our website, are compromised, degraded, damaged or fail, whether due to a virus or other harmful circumstance, intentional penetration

or disruption of our information technology resources by a third party, natural disaster, hardware or software corruption or failure or error (including a failure of security controls incorporated into or applied to such hardware or software), telecommunications system failure, service provider error or failure or intentional or unintentional personnel actions (including the failure to follow our security protocols), or lost connectivity to our networked resources. A significant disruption in the functioning of these resources, or breach thereof, including our website, could damage our reputation and cause us to lose customers, sales and revenue.

In addition, breaches of our information technology systems or data security systems, including cyber-attacks, could result in the unintended and/or unauthorized public disclosure or the misappropriation of proprietary, personal identifying and confidential information (including information we collect and retain in connection with our business about our homebuyers, business partners and employees), and require us to incur significant expense (that we may not be able to recover in whole or in part from our service providers or responsible parties, or their or our insurers) to address and remediate or otherwise resolve. The unintended and/or unauthorized public disclosure or the misappropriation of proprietary, personal identifying or confidential information may also lead to litigation or other proceedings against us by affected individuals and/or business partners and/or by regulators, and the outcome of such proceedings, which could include losses, penalties, fines, injunctions, expenses and charges recorded against our earnings, could have a material and adverse effect on our financial position, results of operations and cash flows and harm our reputation. In addition, the costs of maintaining adequate protection against such threats, based on considerations of their evolution, increasing sophistication, pervasiveness and frequency and/or increasingly demanding government-mandated standards or obligations regarding information security and privacy, could be material to our consolidated financial statements in a particular period or over various periods.

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

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

On December 31, 2019, we sold our 85,000 square foot office building that had been used for our home office in Columbus, Ohio. We have entered into a lease for a new home office in Columbus, Ohio and expect to move into the new office location in April 2020. See [Note 1](#) to our Consolidated Financial Statements in Item 8 of this Form 10-K. We lease all of our other offices (see [Note 9](#) to our Consolidated Financial Statements in Item 8 of this Form 10-K for additional information regarding our office leases).

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

Item 3. LEGAL PROCEEDINGS

The Company and certain of its subsidiaries have received claims from homeowners in certain of our communities in our Tampa and Orlando, Florida markets (and been named as a defendant in legal proceedings initiated by certain of such homeowners) related to stucco on their homes. See [Note 8](#) to the Company’s Consolidated Financial Statements for further information regarding these stucco claims.

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

Item 4. MINE SAFETY DISCLOSURES

None.

PART II

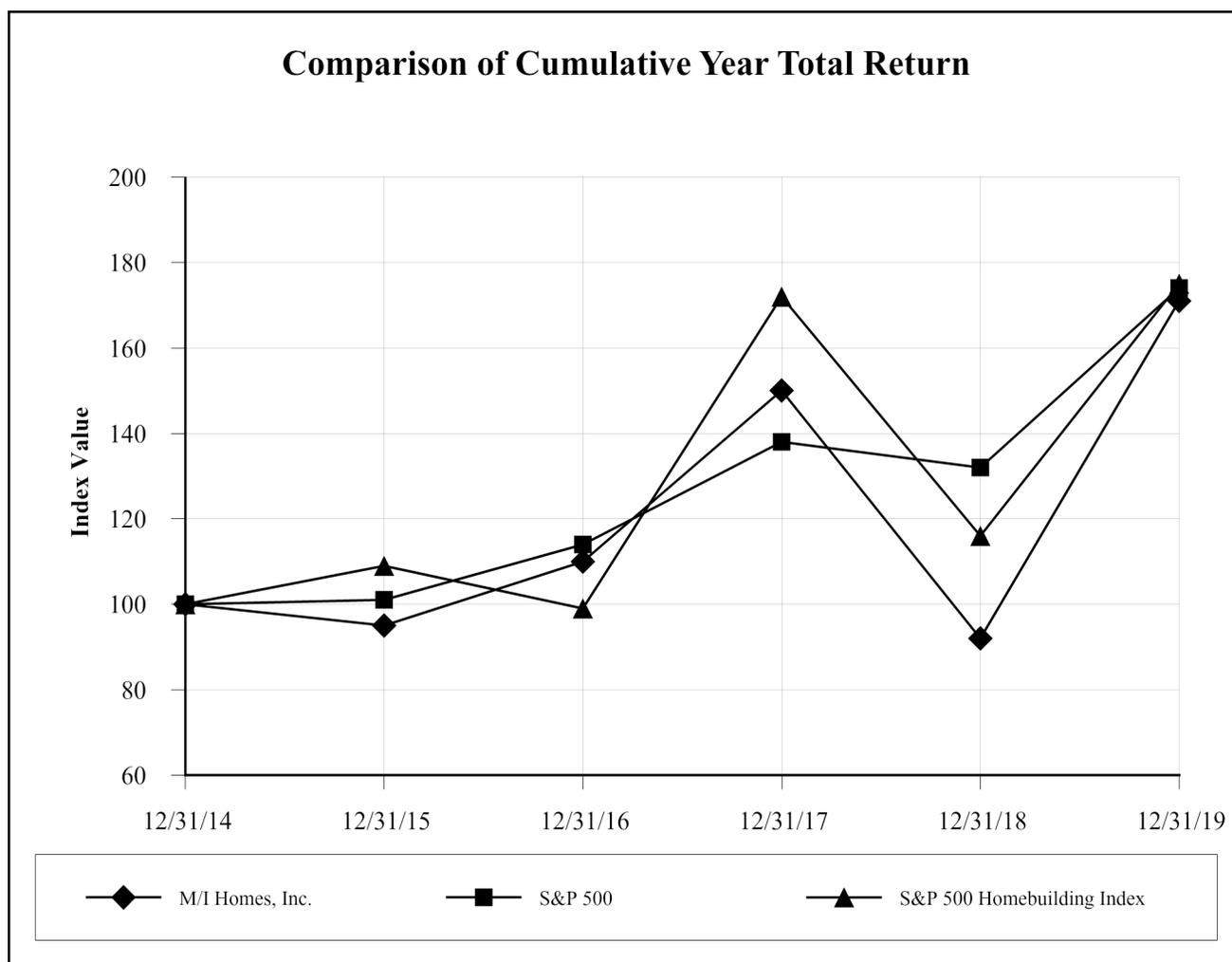
Item 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for Common Shares and Dividends

The Company’s common shares are traded on the New York Stock Exchange under the symbol “MHO.” As of February 19, 2020, there were approximately 445 record holders of the Company’s common shares. At that date, there were 30,137,141 common shares issued and 28,578,537 common shares outstanding.

Performance Graph

The following graph illustrates the Company’s performance in the form of cumulative total return to holders of our common shares for the last five calendar years through December 31, 2019, assuming a hypothetical investment of \$100 and reinvestment of all dividends paid on such investment, compared to the cumulative total return of the same hypothetical investment in both the Standard and Poor’s 500 Stock Index and the Standard & Poor’s 500 Homebuilding Index.



Index	Period Ending					
	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
M/I Homes, Inc.	\$ 100.00	\$ 95.47	\$ 109.67	\$ 149.83	\$ 91.55	\$ 171.39
S&P 500	100.00	101.38	113.51	138.29	132.23	173.86
S&P 500 Homebuilding Index	100.00	108.55	99.00	171.62	116.27	175.33

Share Repurchases

There were no repurchases made by, or on behalf of, the Company or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Exchange Act) of the Company’s common shares during the fourth quarter of the fiscal year ended December 31, 2019.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected consolidated financial data as of the dates and for the periods indicated. This table should be read together with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Consolidated Financial Statements, including the Notes thereto, contained in this Annual Report on Form 10-K. These historical results may not be indicative of future results.

(In thousands, except per share amounts)	2019	2018	2017	2016	2015
Income Statement (Year Ended December 31):					
Revenue	\$ 2,500,290	\$ 2,286,282	\$ 1,961,971	\$ 1,691,327	\$ 1,418,395
Gross margin ^(a)	\$ 489,427	\$ 443,769	\$ 393,268	\$ 329,152	\$ 300,094
Income before income taxes ^{(a) (b) (c)}	\$ 166,025	\$ 141,289	\$ 120,324	\$ 91,785	\$ 86,929
Net income ^{(a) (b) (c) (d)}	\$ 127,587	\$ 107,663	\$ 72,081	\$ 56,609	\$ 51,763
Preferred dividends	\$ —	\$ —	\$ 3,656	\$ 4,875	\$ 4,875
Excess of fair value over book value of preferred shares redeemed	\$ —	\$ —	\$ 2,257	\$ —	\$ —
Net income to common shareholders	\$ 127,587	\$ 107,663	\$ 66,168	\$ 51,734	\$ 46,888
Earnings per share to common shareholders:					
Basic:	\$ 4.58	\$ 3.81	\$ 2.57	\$ 2.10	\$ 1.91
Diluted:	\$ 4.48	\$ 3.70	\$ 2.26	\$ 1.84	\$ 1.68
Weighted average shares outstanding:					
Basic	27,846	28,234	25,769	24,666	24,575
Diluted	28,475	29,178	30,688	30,116	30,047
Balance Sheet (December 31):					
Inventory	\$ 1,769,507	\$ 1,674,460	\$ 1,414,574	\$ 1,215,934	\$ 1,112,042
Total assets	\$ 2,105,594	\$ 2,021,581	\$ 1,864,771	\$ 1,548,511	\$ 1,415,554
Notes payable banks – homebuilding operations	\$ 66,000	\$ 117,400	\$ —	\$ 40,300	\$ 43,800
Notes payable banks – financial services operations	\$ 136,904	\$ 153,168	\$ 168,195	\$ 152,895	\$ 123,648
Notes payable - other	\$ 5,828	\$ 5,938	\$ 10,576	\$ 6,415	\$ 8,441
Convertible senior subordinated notes due 2017 - net	\$ —	\$ —	\$ —	\$ 57,093	\$ 56,518
Convertible senior subordinated notes due 2018 - net	\$ —	\$ —	\$ 86,132	\$ 85,423	\$ 84,714
Senior notes - net	\$ 546,080	\$ 544,455	\$ 542,831	\$ 295,677	\$ 294,727
Shareholders’ equity	\$ 1,003,477	\$ 855,303	\$ 747,298	\$ 654,174	\$ 596,566

- (a) Includes \$0.6 million (\$0.02 per diluted share) and \$5.1 million (\$0.13 per diluted share) of pre-tax acquisition-related charges taken during 2019 and 2018, respectively, as a result of our acquisition of Pinnacle Homes in Detroit, Michigan on March 1, 2018, pre-tax charges of \$8.5 million (\$0.18 per diluted share) and \$19.4 million (\$0.40 per diluted share) for stucco-related repair costs in certain of our Florida communities (as more fully discussed in [Note 8](#) to our Consolidated Financial Statements) taken during the years ended December 31, 2017 and 2016, respectively, and \$5.0 million (\$0.18 per diluted share), \$5.8 million (\$0.15 per diluted share), \$7.7 million (\$0.16 per diluted share), \$4.0 million (\$0.08 per diluted share), and \$3.6 million (\$0.08 per diluted share) related to pre-tax impairment charges taken during the years ended December 31, 2019, 2018, 2017, 2016 and 2015, respectively.
- (b) Includes \$1.7 million (\$0.05 per diluted share) of pre-tax charges related to acquisition and integration costs taken during 2018 as a result of our acquisition of Pinnacle Homes.
- (c) Includes a pre-tax charge of \$7.8 million (\$0.16 per diluted share) for the loss on early extinguishment of debt taken during the year ended December 31, 2015.
- (d) Includes a non-cash provisional tax expense of approximately \$6.5 million (\$0.21 per diluted share) related to the re-measurement of our deferred tax assets as a result of the 2017 Tax Act enacted in December 2017 for the year ended December 31, 2017.

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

M/I Homes, Inc. and subsidiaries (the "Company" or "we") is one of the nation's leading builders of single-family homes, having sold over 118,200 homes since commencing homebuilding activities in 1976. The Company's homes are marketed and sold primarily under the M/I Homes brand (M/I Homes and Showcase Collection (exclusively by M/I)). In addition, the Hans Hagen brand is used in older communities in our Minneapolis/St. Paul, Minnesota market. The Company has homebuilding operations in Columbus and Cincinnati, Ohio; Indianapolis, Indiana; Chicago, Illinois; Minneapolis/St. Paul, Minnesota; Detroit, Michigan; Tampa, Sarasota and Orlando, Florida; Austin, Dallas/Fort Worth, Houston and San Antonio, Texas; and Charlotte and Raleigh, North Carolina. In the first quarter of 2019, we decided to wind down our Washington, D.C. operations, which we substantially completed by the end of 2019. See Note 15 to our Consolidated Financial Statements for more information regarding our decision to wind down our operations in Washington, D.C. and our re-evaluation of our reporting segments as a result of this wind-down.

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:

- Application of Critical Accounting Estimates and Policies;
- 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.

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 assumptions on historical experience and 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 assumptions 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 "Forward - Looking Statements" above in Part I.

Listed below are those estimates and policies that we believe are critical and require the use of complex judgment in their application. Our critical accounting estimates should be read in conjunction with the Notes to our Consolidated Financial Statements.

Revenue Recognition. Revenue and the related profit from the sale of a home and revenue and the related profit from the sale of land to third parties are recognized in the financial statements on the date of closing if delivery has occurred, title has passed to the buyer, all performance obligations (as defined below) have been met, and control of the home or land is transferred to the buyer in an amount that reflects the consideration we expect to be entitled to in exchange for the home or land. If not received immediately upon closing, cash proceeds from home closings are held in escrow for the Company's benefit, typically for up to three days, and are included in Cash, cash equivalents and restricted cash on the Consolidated Balance Sheets.

Sales incentives vary by type of incentive and by amount on a community-by-community and home-by-home basis. The costs of any sales incentives in the form of free or discounted products and services provided to homebuyers are reflected in Land and housing costs in the Consolidated Statements of Income because such incentives are identified in our home purchase contracts with homebuyers as an intrinsic part of our single performance obligation to deliver and transfer title to their home for the transaction price stated in the contracts. Sales incentives that we may provide in the form of closing cost allowances are recorded as a reduction of housing revenue at the time the home is delivered.

We record sales commissions within Selling expenses in the Consolidated Statements of Income when incurred (i.e. when the home is delivered) as the amortization period is generally one year or less and therefore capitalization is not required as part of the practical expedient for incremental costs of obtaining a contract.

Contract liabilities include customer deposits related to sold but undelivered homes. Substantially all of our home sales are scheduled to close and be recorded to revenue within one year from the date of receiving a customer deposit. Contract liabilities

expected to be recognized as revenue, excluding revenue pertaining to contracts that have an original expected duration of one year or less, is not material.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. All of our home purchase contracts have a single performance obligation as the promise to transfer the home is not separately identifiable from other promises in the contract and, therefore, not distinct. Our performance obligation, to deliver the agreed-upon home, is generally satisfied in less than one year from the original contract date. Deferred revenue resulting from uncompleted performance obligations existing at the time we deliver new homes to our homebuyers is not material.

Although our third party land sale contracts may include multiple performance obligations, the revenue we expect to recognize in any future year related to remaining performance obligations, excluding revenue pertaining to contracts that have an original expected duration of one year or less, is not material. We do not disclose the value of unsatisfied performance obligations for land sale contracts with an original expected duration of one year or less.

We recognize the majority of the revenue associated with our mortgage loan operations when the mortgage loans are sold and/or related servicing rights are sold to third party investors or retained and managed under a third party sub-service arrangement. The revenue recognized is reduced by the fair value of the related guarantee provided to the investor. The fair value of the guarantee is recognized in revenue when the Company is released from its obligation under the guarantee. We recognize financial services revenue associated with our title operations as homes are delivered, closing services are rendered, and title policies are issued, all of which generally occur simultaneously as each home is delivered. All of the underwriting risk associated with title insurance policies is transferred to third-party insurers.

See [Note 1](#) to our Consolidated Financial Statements for additional information related to our revenues disaggregated by geography and revenue source.

Inventory. Inventory includes the costs of land acquisition, land development and home construction, capitalized interest, real estate taxes, direct overhead costs incurred during development and home construction, and common costs that benefit the entire community, less impairments, if any. Land acquisition, land development and common costs (both incurred and estimated to be incurred) are typically allocated to individual lots based on the total number of lots expected to be closed in each community or phase, or based on the relative fair value, the relative sales value or the front footage method of each lot. Any changes to the estimated total development costs of a community or phase are allocated proportionately to the homes remaining in the community or phase and homes previously closed. The cost of individual lots is transferred to homes under construction when home construction begins. Home construction costs are accumulated on a specific identification basis. Costs of home deliveries include the specific construction cost of the home and the allocated lot costs. Such costs are charged to cost of sales simultaneously with revenue recognition, as discussed above. When a home is closed, we typically have not yet paid all incurred costs necessary to complete the home. As homes close, we compare the home construction budget to actual recorded costs to date to estimate the additional costs to be incurred from our subcontractors related to the home. We record a liability and a corresponding charge to cost of sales for the amount we estimate will ultimately be paid related to that home. We monitor the accuracy of such estimates by comparing actual costs incurred in subsequent months to the estimate. Although actual costs to complete a home in the future could differ from our estimates, our method has historically produced consistently accurate estimates of actual costs to complete closed homes.

Inventory is recorded at cost, unless events and circumstances indicate that the carrying value of the land is impaired, at which point the inventory is written down to fair value as required by Accounting Standards Codification ("ASC") 360-10, *Property, Plant and Equipment* ("ASC 360"). The Company assesses inventory for recoverability on a quarterly basis if events or changes in local or national economic conditions indicate that the carrying amount of an asset may not be recoverable. In conducting our quarterly review for indicators of impairment on a community level, we evaluate, among other things, margins on sales contracts in backlog, the margins on homes that have been delivered, expected changes in margins with regard to future home sales over the life of the community, expected changes in margins with regard to future land sales, the value of the land itself as well as any results from third-party appraisals. From the review of all of these factors, we identify communities whose carrying values may exceed their estimated undiscounted future cash flows and run a test for recoverability. For those communities whose carrying values exceed the estimated undiscounted future cash flows and which are deemed to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the communities exceeds the estimated fair value. Due to the fact that the Company's cash flow models and estimates of fair values are based upon management estimates and assumptions, unexpected changes in market conditions and/or changes in management's intentions with respect to the inventory may lead the Company to incur additional impairment charges in the future. Because each inventory asset is unique, there are numerous inputs and assumptions used in our valuation techniques, including estimated average selling price, construction and development costs, absorption pace (reflecting any product mix change strategies implemented or to be implemented), selling strategies, alternative land uses (including

disposition of all or a portion of the land owned), or discount rates, which could materially impact future cash flow and fair value estimates.

As of December 31, 2019, our projections generally assume a gradual improvement in market conditions. If communities are not recoverable based on estimated future undiscounted cash flows, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. The fair value of a community is estimated by discounting management's cash flow projections using an appropriate risk-adjusted interest rate. As of December 31, 2019, we utilized discount rates ranging from 13% to 16% in our valuations. The discount rate used in determining each asset's estimated fair value reflects the inherent risks associated with the related estimated cash flow stream, as well as current risk-free rates available in the market and estimated market risk premiums.

Our quarterly assessments reflect management's best estimates. Due to the inherent uncertainties in management's estimates and uncertainties related to our operations and our industry as a whole as further discussed in "Item 1A. Risk Factors" in Part I of this Annual Report on Form 10-K, we are unable to determine at this time if and to what extent continuing future impairments will occur. Additionally, due to the volume of possible outcomes that can be generated from changes in the various model inputs for each community, we do not believe it is possible to create a sensitivity analysis that can provide meaningful information for the users of our financial statements.

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

Our warranty reserves for our 30-year (offered on all homes sold after April 25, 1998 and on or before December 1, 2015 in all of our markets except our Texas markets), 15-year (offered on all homes sold after December 1, 2015 in all of our markets except our Texas markets) and 10-year (offered on all homes sold in our Texas markets) transferable structural warranty programs are established on a per-unit basis. While the structural warranty reserve is recorded as each house is delivered, the sufficiency of the structural warranty per unit charge and total reserve is reevaluated on an annual basis, with the assistance of an actuary, using our own historical data and trends, as well as industry-wide historical data and trends, and other project specific factors. The reserves are also evaluated quarterly and adjusted if we encounter activity that is not consistent with the historical experience used in the annual analysis. These reserves are subject to variability due to uncertainties regarding structural defect claims for products we build, the markets in which we build, claim settlement history, insurance and legal interpretations, among other factors.

While we believe that our warranty reserves are sufficient to cover our projected costs, there can be no assurances that historical data and trends will accurately predict our actual warranty costs. See [Note 1](#) and [Note 8](#) to our Consolidated Financial Statements for additional information related to our warranty reserves.

RESULTS OF OPERATIONS

Overview

For the year ended December 31, 2019, we achieved record levels of new contracts, homes delivered, revenue and pre-tax income. The improved profitability is attributable primarily to the increase in homes delivered and improved overhead leverage. We also incurred lower acquisition-related expenses in 2019. Additionally, our complementary financial services business also achieved record revenue and a record number of loans originated in 2019. Fundamental housing market factors were favorable in 2019, including steady increases in employment, continued low mortgage rates, relatively high consumer confidence, and a limited supply of homes available for sale. Although we believe housing market conditions will remain relatively favorable during 2020, we also believe rising land and construction costs may continue to impose pressure on housing affordability in many of our markets.

Favorable market conditions along with the continued execution of our strategic business initiatives enabled us to achieve the following record results in 2019 in comparison to the year ended December 31, 2018:

- New contracts increased 16% to 6,773 contracts - a record high for our Company
- Homes delivered increased 9% to 6,296 homes - a record high for our Company
- Total sales value in backlog increased 18% to \$1,058 million - a year-end record for our Company
- Revenue increased 9% to \$2.50 billion - a record high for our Company
- Income before income taxes increased 18% to \$166.0 million - a record high for our Company
- Number of active communities at December 31, 2019 increased 8% to 225 - an all-time record for our Company

In addition to the record results described above, our number of homes in backlog increased 22%, and our company-wide absorption pace of sales per community for 2019 was 2.6 per month compared to 2.4 per month in 2018.

In January 2020, we issued \$400 million aggregate principal amount of 2028 Senior Notes for net proceeds of approximately \$393.9 million. We used a portion of the net proceeds of this offering to redeem, at par, all \$300.0 million aggregate principal amount of our outstanding 6.75% Senior Notes due 2021 (the “2021 Senior Notes”) and used the remaining proceeds to repay a portion of our outstanding borrowings under the Credit Facility (as defined below).

Summary of Company Financial Results in 2019

The calculations of adjusted income before income taxes, adjusted net income, and adjusted housing gross margin, each of which is a non-GAAP measure, are described and reconciled to income before income taxes, net income, and housing gross margin, respectively, which represent the most directly comparable financial measures calculated in accordance with GAAP, below under “Non-GAAP Financial Measures.”

Income before income taxes for the twelve months ended December 31, 2019 increased 18% from \$141.3 million for the year ended December 31, 2018 to \$166.0 million for the year ended December 31, 2019. Income before income taxes for 2019 was unfavorably impacted by \$0.6 million of acquisition-related charges as a result of our acquisition of Pinnacle Homes in March 2018 and asset impairment charges of \$5.0 million. Income before income taxes for 2018 was unfavorably impacted by \$6.8 million of acquisition-related charges (which includes \$5.1 million of charges related to purchase accounting adjustments and \$1.7 million of acquisition and integration costs, both incurred as a result of our acquisition of Pinnacle Homes) and asset impairment charges of \$5.8 million. Excluding these acquisition-related and impairment charges in both 2019 and 2018, adjusted income before income taxes increased 12% from \$153.9 million in 2018 to \$171.7 million in 2019.

In 2019, we achieved net income of \$127.6 million, or \$4.48 per diluted share compared to net income of \$107.7 million, or \$3.70 per diluted share in 2018, both of which include the after-tax impact of the acquisition-related charges and asset impairment charges noted above. Excluding these charges, adjusted net income increased 12% from \$117.3 million in 2018 to \$131.9 million in 2019.

In 2019, we recorded record total revenue of \$2.50 billion, including \$2.42 billion from homes delivered, \$24.6 million from land sales, and \$55.3 million from our financial services operations. Revenue from homes delivered increased 9% from 2018 driven primarily by the 518 additional homes delivered in 2019 (a 9% increase). Revenue from land sales increased \$7.7 million from 2018 due primarily to more land sales in our Northern region in the current year compared to the prior year. Revenue from our financial services segment increased 6% to \$55.3 million in 2019 as a result of an increase in the number of loan originations and an increase in the average loan amount, partially offset by lower margins on loans sold during the period than we experienced in 2018, primarily in the first quarter of 2019.

Total gross margin (total revenue less total land and housing costs) increased \$45.7 million in 2019 compared to 2018 as a result of a \$42.5 million improvement in the gross margin of our homebuilding operations and a \$3.2 million improvement in the gross margin of our financial services operations. With respect to our homebuilding gross margin, our gross margin on homes delivered (housing gross margin) improved \$44.1 million, due to the 9% increase in the number of homes delivered and a decline of \$0.8 million in asset impairment charges. Our housing gross margin percentage improved 30 basis points from 17.6% in the prior year to 17.9% in 2019. Exclusive of the acquisition-related charges and asset impairment charges in 2019 and 2018, our adjusted housing gross margin percentage remained flat at 18.1% in both 2019 and 2018. Our gross margin on land sales (land gross margin) declined \$1.5 million in 2019 compared to 2018 as a result of the mix of lots sold in the current year compared to the prior year. The gross margin of our financial services operations increased \$3.2 million in 2019 compared to 2018 as a result of increases in the number of loan originations, the average loan amount and the volume of loans sold, partially offset by a decline in margins on loans sold, primarily in the first quarter of 2019.

We believe the increased sales volume in 2019 compared to 2018 was driven primarily by the opening of new communities which increased our average number of locations selling homes, along with the continued favorable economic conditions described above, limited supply of homes available for sale, better pricing leverage in select locations and submarkets, and shifts in both product and community mix. We opened 80 new communities during 2019. We sell a variety of home types in various communities and markets, each of which yields a different gross margin. The timing of the openings of new replacement communities as well as underlying lot costs and type of home offered varies from year to year. As a result, our new contracts, average closing price and housing gross margin may fluctuate up or down from year to year depending on the mix of communities delivering homes. The improvements described above were partially offset by higher average lot and construction costs related to homebuilding industry conditions and normal supply and demand dynamics.

For 2019, selling, general and administrative expense increased \$21.7 million, which partially offset the increase in our gross margin discussed above, but declined as a percentage of revenue to 12.1% in 2019 compared to 12.3% in 2018. Selling expense increased \$11.5 million from 2018 and remained flat as a percentage of revenue at 6.2% in both 2019 and 2018. Variable selling expense for sales commissions contributed \$7.8 million to the increase due to the higher number of homes delivered. The increase in selling expense was also attributable to a \$3.7 million increase in non-variable selling expense primarily related to costs associated with our sales offices and models as a result of our increased average community count. General and administrative expense increased \$10.2 million compared to 2018 but declined as a percentage of revenue from 6.0% in 2018 to 5.9% in 2019. The dollar increase in general and administrative expense was primarily due to a \$7.2 million increase in compensation-related expenses primarily due to our increased headcount and improved performance, a \$1.8 million increase in land related expenses due to our increased average community count, a \$0.8 million increase in costs associated with new information systems, and a \$0.4 million increase related to employee severance benefits as a result of the wind down of our Washington, D.C. operations.

Outlook

During 2019, housing market conditions were favorable, as interest rates moderated, with particularly strong sales in the second half of the year. We believe the general economic backdrop, with low unemployment, higher wages and high consumer confidence along with relatively low mortgage rates and low home inventory levels, provided a catalyst for increased demand for new homes. We believe these conditions and the associated level of housing demand will continue into 2020. The housing industry also continued to experience a modest shift to more affordable homes in 2019, which we responded to through additional investment in our more affordable Smart Series product. We remain sensitive to changes in market conditions, and continue to focus on increasing our profitability by generating additional revenue, expanding our market share, shifting our product mix to include more affordable designs, and investing in attractive land opportunities to increase our number of active communities.

We expect to continue to emphasize the following strategic business objectives in 2020:

- profitably growing our presence in our existing markets, including opening new communities;
- expanding the availability of our more affordable Smart Series homes;
- opportunistically reviewing potential new markets;
- maintaining a strong balance sheet; and
- emphasizing customer service, product quality and design, and premier locations.

Consistent with these objectives, we took several actions in 2019 intended to continue the improvement in our financial and operating results in 2020 and beyond, including investing \$332.1 million in land acquisitions and \$268.3 million in land development to grow our presence in our existing markets. We currently estimate that we will spend approximately \$650 million to \$700 million on land purchases and land development in 2020. However, land transactions are subject to a number of factors, including our financial condition and market conditions, as well as the satisfaction of various conditions related to specific properties. We will continue to monitor market conditions and our ongoing pace of home sales and deliveries, and we will adjust our land spending accordingly.

We ended 2019 with approximately 33,300 lots under control, which represents a 5.3 year supply of lots based on 2019 homes delivered, including certain lots that we anticipate selling to third parties. This represents a 16% increase from our approximately 28,700 lots under control at the end of 2018. We also opened 80 communities and closed 64 communities in 2019, ending the year with a total of 225 communities. Of our total communities, 61 offered our more affordable Smart Series designs, which are primarily designed for first-time homebuyers. We estimate that our average community count in 2020 will increase by about 5% from our average community count of 218 communities in 2019.

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.

Segment Reporting

During 2019, we decided to wind down our Washington, D.C. operations, which was substantially completed by December 31, 2019. As a result, during the second quarter of 2019, we re-evaluated our reportable segments and determined that none of our separate Mid-Atlantic operating segments met the reportable criteria set forth in ASC 280, *Segment Reporting* (“ASC 280”). Therefore, we elected to aggregate our Charlotte and Raleigh, North Carolina operating segments (and our remaining Washington, D.C. operations, which were immaterial as of December 31, 2019) into our existing Southern region based on the aggregation criteria described in ASC 280. All prior year segment information has been recast to conform with the 2019 presentation. The change in the reportable segments has no effect on the Company's Consolidated Balance Sheets, Statement of Income or Statement of Cash Flows for the periods presented. See Note 15 to our Consolidated Financial Statements for further information on the Company's application of ASC 280.

As a result of this re-evaluation, we have determined our reportable segments are: Northern homebuilding; Southern homebuilding; and financial services operations. The homebuilding operating segments that comprise each of our reportable segments are as follows:

Northern

Chicago, Illinois
Cincinnati, Ohio
Columbus, Ohio
Indianapolis, Indiana
Minneapolis/St. Paul, Minnesota
Detroit, Michigan

Southern

Orlando, Florida
Sarasota, Florida
Tampa, Florida
Austin, Texas
Dallas/Fort Worth, Texas
Houston, Texas
San Antonio, Texas
Charlotte, North Carolina
Raleigh, North Carolina

The following table shows, by segment: revenue; gross margin; selling, general and administrative expense; operating income (loss); interest expense; and depreciation and amortization for the years ended December 31, 2019, 2018 and 2017:

(In thousands)	Year Ended		
	2019	2018	2017
Revenue:			
Northern homebuilding	\$ 1,027,291	\$ 933,119	\$ 742,577
Southern homebuilding	1,417,676	1,300,967	1,169,701
Financial services ^(a)	55,323	52,196	49,693
Total revenue	\$ 2,500,290	\$ 2,286,282	\$ 1,961,971
Gross margin:			
Northern homebuilding ^(b)	\$ 182,887	\$ 165,187	\$ 149,080
Southern homebuilding ^(c)	251,217	226,386	194,495
Financial services ^(a)	55,323	52,196	49,693
Total gross margin ^{(b)(c)(d)}	\$ 489,427	\$ 443,769	\$ 393,268
Selling, general and administrative expense:			
Northern homebuilding	\$ 86,648	\$ 79,056	\$ 67,558
Southern homebuilding	136,135	130,474	122,099
Financial services ^(a)	27,973	24,714	22,405
Corporate	51,582	46,364	42,547
Total selling, general and administrative expense	\$ 302,338	\$ 280,608	\$ 254,609
Operating income (loss):			
Northern homebuilding ^(b)	\$ 96,239	\$ 86,131	\$ 81,522
Southern homebuilding ^(c)	115,082	95,912	72,396
Financial services ^(a)	27,350	27,482	27,288
Less: Corporate selling, general and administrative expense	(51,582)	(46,364)	(42,547)
Total operating income ^{(b)(c)(d)}	\$ 187,089	\$ 163,161	\$ 138,659
Interest expense:			
Northern homebuilding	\$ 7,474	\$ 7,142	\$ 5,010
Southern homebuilding	10,250	10,073	11,107
Financial services ^(a)	3,651	3,269	2,757
Total interest expense	\$ 21,375	\$ 20,484	\$ 18,874
Equity in income from joint venture arrangements	\$ (311)	\$ (312)	\$ (539)
Acquisition and integration costs ^(e)	—	1,700	—
Income before income taxes	\$ 166,025	\$ 141,289	\$ 120,324
Depreciation and amortization:			
Northern homebuilding	\$ 2,944	\$ 2,448	\$ 2,069
Southern homebuilding	4,778	4,472	4,579
Financial services	2,095	1,281	1,503
Corporate	6,133	6,330	6,023
Total depreciation and amortization	\$ 15,950	\$ 14,531	\$ 14,174

(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.

(b) Includes \$0.6 million and \$5.1 million of acquisition-related charges taken during 2019 and 2018, respectively, as a result of our acquisition of Pinnacle Homes in Detroit, Michigan on March 1, 2018.

(c) The year ended December 31, 2017 includes an \$8.5 million charge for stucco-related repair costs in certain of our Florida communities (as more fully discussed below and in [Note 8](#) to our Consolidated Financial Statements).

(d) For the years ended December 31, 2019, 2018 and 2017, total gross margin and total operating income were reduced by \$5.0 million, \$5.8 million and \$7.7 million, respectively, related to asset impairment charges taken during the period.

(e) Represents costs which include, but are not limited to, legal fees and expenses, travel and communication expenses, cost of appraisals, accounting fees and expenses, and miscellaneous expenses related to our acquisition of Pinnacle Homes. As these costs are not eligible for capitalization as initial direct costs, such amounts are expensed as incurred.

The following tables show total assets by segment at December 31, 2019, 2018 and 2017:

At December 31, 2019				
(In thousands)	Northern	Southern	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	\$ 3,655	\$ 24,877	\$ —	\$ 28,532
Inventory ^(a)	783,972	957,003	—	1,740,975
Investments in joint venture arrangements	1,672	36,213	—	37,885
Other assets ^(c)	21,564	52,662 ^(b)	223,976	298,202
Total assets	\$ 810,863	\$ 1,070,755	\$ 223,976	\$ 2,105,594

At December 31, 2018				
(In thousands)	Northern	Southern	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	\$ 5,725	\$ 27,937	\$ —	\$ 33,662
Inventory ^(a)	696,057	944,741	—	1,640,798
Investments in joint venture arrangements	1,562	34,308	—	35,870
Other assets	19,524	43,086 ^(b)	248,641 ^{(c)(d)}	311,251
Total assets	\$ 722,868	\$ 1,050,072	\$ 248,641	\$ 2,021,581

At December 31, 2017				
(In thousands)	Northern	Southern	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	\$ 4,933	\$ 27,623	\$ —	\$ 32,556
Inventory ^(a)	500,671	881,347	—	1,382,018
Investments in unconsolidated joint ventures	4,410	16,115	—	20,525
Other assets	13,573	52,095 ^(b)	364,004	429,672
Total assets	\$ 523,587	\$ 977,180	\$ 364,004	\$ 1,864,771

- (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.
- (b) Includes development reimbursements from local municipalities.
- (c) Includes asset held for sale for \$5.6 million.
- (d) The decrease in Corporate, Financial Services, and Unallocated other assets from 2017 is related to an increase in cash on hand at the end of 2017 due primarily to the issuance of our \$250.0 million aggregate principal amount of 2025 Senior Notes during the year ended December 31, 2017.
- (e) Includes \$18.4 million of operating lease right-of-use assets recorded as a result of the adoption of ASU 2016-02 on January 1, 2019. See [Note 9](#) to our Consolidated Financial Statements for further information.

Reportable Segments

The following table presents, by reportable segment, selected operating and financial information as of and for the years ended December 31, 2019, 2018 and 2017:

(Dollars in thousands)	Year Ended December 31,		
	2019	2018	2017
Northern Region			
Homes delivered	2,482	2,317	1,907
New contracts, net	2,695	2,306	1,978
Backlog at end of period	1,143	930	828
Average sales price of homes delivered	\$ 411	\$ 402	\$ 387
Average sales price of homes in backlog	\$ 433	\$ 441	\$ 415
Aggregate sales value of homes in backlog	\$ 494,961	\$ 410,434	\$ 343,660
Housing revenue	\$ 1,020,362	\$ 932,248	\$ 738,743
Land sale revenue	\$ 6,929	\$ 871	\$ 3,834
Operating income homes ^{(a) (b)}	\$ 96,108	\$ 85,747	\$ 80,762
Operating income land	\$ 131	\$ 384	\$ 760
Number of average active communities	91	84	64
Number of active communities, end of period	96	90	69
Southern Region			
Homes delivered	3,814	3,461	3,182
New contracts, net	4,078	3,539	3,321
Backlog at end of period	1,528	1,264	1,186
Average sales price of homes delivered	\$ 367	\$ 371	\$ 358
Average sales price of homes in backlog	\$ 368	\$ 385	\$ 377
Aggregate sales value of homes in backlog	\$ 562,567	\$ 486,280	\$ 447,593
Housing revenue	\$ 1,399,986	\$ 1,284,949	\$ 1,139,829
Land sale revenue	\$ 17,690	\$ 16,018	\$ 29,872
Operating income homes ^{(a) (c)}	\$ 114,715	\$ 94,251	\$ 70,307
Operating income land	\$ 367	\$ 1,661	\$ 2,089
Number of average active communities	127	121	119
Number of active communities, end of period	129	119	119
Total Homebuilding Regions			
Homes delivered	6,296	5,778	5,089
New contracts, net	6,773	5,845	5,299
Backlog at end of period	2,671	2,194	2,014
Average sales price of homes delivered	\$ 384	\$ 384	\$ 369
Average sales price of homes in backlog	\$ 396	\$ 409	\$ 393
Aggregate sales value of homes in backlog	\$ 1,057,528	\$ 896,714	\$ 791,253
Housing revenue	\$ 2,420,348	\$ 2,217,197	\$ 1,878,572
Land sale revenue	\$ 24,619	\$ 16,889	\$ 33,706
Operating income homes ^{(a) (b) (c) (d)}	\$ 210,823	\$ 179,998	\$ 151,069
Operating income land	\$ 498	\$ 2,045	\$ 2,849
Number of average active communities	218	205	183
Number of active communities, end of period	225	209	188

- (a) Includes the effect of total homebuilding selling, general and administrative expense for the region as disclosed in the first table set forth in this “Outlook” section.
- (b) Includes \$0.6 million and \$5.1 million of acquisition-related charges taken during 2019 and 2018, respectively, as a result of our acquisition of Pinnacle Homes in Detroit, Michigan on March 1, 2018.
- (c) Includes an \$8.5 million charge for stucco-related repair costs in certain of our Florida communities (as more fully discussed below and in [Note 8](#) to our Consolidated Financial Statements) taken during 2017.
- (d) Includes \$5.0 million, \$5.8 million and \$7.7 million of asset impairment charges taken during the years ended December 31, 2019, 2018 and 2017, respectively.

(Dollars in thousands)	Year Ended December 31,		
	2019	2018	2017
Financial Services			
Number of loans originated	4,476	3,964	3,632
Value of loans originated	\$ 1,382,695	\$ 1,200,474	\$ 1,078,520
Revenue	\$ 55,323	\$ 52,196	\$ 49,693
Less: Selling, general and administrative expenses	27,973	24,714	22,405
Less: Interest expense	3,651	3,269	2,757
Income before income taxes	\$ 23,699	\$ 24,213	\$ 24,531

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 years ended December 31, 2019, 2018 and 2017:

	Year Ended December 31,		
	2019	2018	2017
Northern	10.9%	13.6%	12.0%
Southern	14.3%	15.2%	14.8%
Total cancellation rate	13.0%	14.6%	13.8%

Non-GAAP Financial Measures

This report contains information about our adjusted housing gross margin, adjusted income before income taxes, and adjusted net income available to common shareholders, each of which constitutes a non-GAAP financial measure. Because adjusted housing gross margin, adjusted income before income taxes, and adjusted net income available to common shareholders are not calculated in accordance with GAAP, these financial measures may not be completely comparable to similarly-titled measures used by other companies in the homebuilding industry and, therefore, should not be considered in isolation or as an alternative to operating performance and/or financial measures prescribed by GAAP. Rather, these non-GAAP financial measures should be used to supplement our GAAP results in order to provide a greater understanding of the factors and trends affecting our operations.

Adjusted housing gross margin, adjusted income before income taxes, and adjusted net income available to common shareholders are calculated as follows:

(Dollars in thousands)	Year Ended December 31,		
	2019	2018	2017
Housing revenue	\$ 2,420,348	\$ 2,217,197	\$ 1,878,572
Housing cost of sales	1,986,743	1,827,669	1,537,846
Housing gross margin	433,605	389,528	340,726
Add: Stucco-related charges ^(a)	—	—	8,500
Add: Impairment ^(b)	5,002	5,809	7,681
Add: Acquisition-related charges ^(c)	639	5,147	—
Adjusted housing gross margin	\$ 439,246	\$ 400,484	\$ 356,907
Housing gross margin percentage	17.9%	17.6%	18.1%
Adjusted housing gross margin percentage	18.1%	18.1%	19.0%
Income before income taxes	\$ 166,025	\$ 141,289	\$ 120,324
Add: Stucco-related charges ^(a)	—	—	8,500
Add: Impairment ^(b)	5,002	5,809	7,681
Add: Acquisition-related charges ^(c)	639	5,147	—
Add: Acquisition and integration costs ^(d)	—	1,700	—
Adjusted income before income taxes	\$ 171,666	\$ 153,945	\$ 136,505
Net income available to common shareholders	\$ 127,587	\$ 107,663	\$ 66,168
Add: Stucco-related charges - net of tax ^(a)	—	—	5,440
Add: Impairment - net of tax ^(b)	3,802	4,415	4,916
Add: Acquisition-related charges - net of tax ^(c)	486	3,912	—
Add: Acquisition and integration costs - net of tax ^(d)	—	1,292	—
Add: Excess of fair value over book value of preferred shares redeemed ^(e)	—	—	2,257
Add: Deferred tax asset re-measurement as a result of 2017 Tax Act ^(f)	—	—	6,520
Adjusted net income available to common shareholders	\$ 131,875	\$ 117,282	\$ 85,301

- (a) Represents warranty charges for stucco-related repair costs in certain of our Florida communities (as more fully discussed in [Note 8](#) to our Consolidated Financial Statements).
- (b) Represents asset impairment charges taken during the respective periods.
- (c) Represents acquisition-related charges related to our acquisition of Pinnacle Homes in Detroit, Michigan on March 1, 2018 (as more fully discussed in [Note 12](#) to our Consolidated Financial Statements).
- (d) Represents costs which include, but are not limited to, legal fees and expenses, travel and communication expenses, cost of appraisals, accounting fees and expenses, and miscellaneous expenses related to our acquisition of Pinnacle Homes. As these costs are not eligible for capitalization as initial direct costs, such amounts are expensed as incurred.
- (e) Represents the equity charge related to the excess of fair value over carrying value related to the original issuance costs that were paid in 2007 on our Series A Preferred Shares that were redeemed during the fourth quarter of 2017 (as more fully discussed in [Note 13](#) to our Consolidated Financial Statements).
- (f) Represents the impact of the deferred tax asset re-measurement as a result of the 2017 Tax Act passed during the fourth quarter of 2017.

We believe adjusted housing gross margin, adjusted income before income taxes, and adjusted net income available to common shareholders are each relevant and useful financial measures to investors in evaluating our operating performance as they measure the gross profit, income before income taxes, and net income available to common shareholders we generated specifically on our operations during a given period. These non-GAAP financial measures isolate the impact that the acquisition-related charges, stucco-related charges and impairment charges have on housing gross margins; the impact that the acquisition-related charges,

acquisition and integration costs, stucco-related charges and impairment charges have on income before income taxes; and that the acquisition-related charges and integration costs, stucco-related charges, impairment charges, equity adjustment, and deferred tax asset re-measurement charge have on net income available to common shareholders, and allow investors to make comparisons with our competitors that adjust housing gross margins, income before income taxes, and net income available to common shareholders in a similar manner. We also believe investors will find these adjusted financial measures relevant and useful because they represent a profitability measure that may be compared to a prior period without regard to variability of the charges noted above. These financial measures assist us in making strategic decisions regarding community location and product mix, product pricing and construction pace.

Year Over Year Comparisons

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

The calculation of adjusted housing gross margin (referred to below) is described and reconciled to housing gross margin, the financial measure that is calculated using our GAAP results, below under “Segment Non-GAAP Financial Measures.”

Northern Region. During the twelve months ended December 31, 2019, homebuilding revenue in our Northern region increased \$94.2 million, from \$933.1 million in 2018 to \$1,027.3 million in 2019. This 10% increase in homebuilding revenue was the result of a 7% increase in the number of homes delivered (165 units), a 2% increase in the average sales price of homes delivered (\$9,000 per home delivered), and a \$6.1 million increase in land sale revenue. Operating income in our Northern region increased \$10.1 million, from \$86.1 million in 2018 to \$96.2 million in 2019. The increase in operating income was primarily the result of a \$17.7 million increase in our gross margin, offset, in part, by a \$7.5 million increase in selling, general, and administrative expense. With respect to our homebuilding gross margin, our housing gross margin improved \$18.0 million, due to the 7% increase in the number of homes delivered and the 2% increase in the average sales price of homes delivered noted above. Our housing gross margin percentage improved 20 basis points from 17.7% in 2018 to 17.9% in 2019. Our housing gross margin in both 2019 and 2018 was unfavorably impacted by \$0.6 million and \$5.1 million, respectively, of acquisition-related charges from our Detroit acquisition and \$3.4 million and \$0.3 million in asset impairment charges, respectively. Exclusive of these charges in both years, our adjusted housing gross margin percentage in 2019 improved from 18.26% in 2018 to 18.31% in 2019 largely due to a change in product type and market mix of homes delivered compared to prior year, offset, in part, by increased lot and construction costs. Our land sale gross margin declined \$0.3 million in the twelve months ended December 31, 2019 compared to the same period in 2018 as a result of the mix of lots sold in the current year compared to the prior year.

Selling, general and administrative expense increased \$7.5 million, from \$79.1 million in 2018 to \$86.6 million in 2019, but declined as a percentage of revenue to 8.4% in 2019 compared to 8.5% in 2018. The increase in selling, general and administrative expense was attributable, in part, to a \$5.6 million increase in selling expense, due to (1) a \$2.5 million increase in variable selling expenses resulting from increases in sales commissions produced by the higher average sales price of homes delivered and higher number of homes delivered, \$1.0 million of which was associated with our Detroit division, and (2) a \$3.1 million increase in non-variable selling expenses primarily related to costs associated with our additional 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 \$1.9 million increase in general and administrative expense, which was primarily related to a \$0.9 million increase in land-related expenses, a \$0.3 million increase in professional fees, and a \$0.7 million increase in miscellaneous other expenses.

During 2019, we experienced a 17% increase in new contracts in our Northern region, from 2,306 in 2018 to 2,695 in 2019, and a 23% increase in backlog from 930 homes at December 31, 2018 to 1,143 homes at December 31, 2019. The increases in new contracts and backlog were attributable to (1) improved demand in our Smart Series communities compared to the prior year and (2) an increase in our average number of communities during the period. Average sales price in backlog decreased to \$433,000 at December 31, 2019 compared to \$441,000 at December 31, 2018 which was primarily due to product type and market mix in 2019 compared to prior year. During the twelve months ended December 31, 2019, we opened 28 new communities in our Northern region compared to 26 during 2018. Our monthly absorption rate in our Northern region improved to 2.5 per community in 2019, compared to 2.3 per community in 2018.

Southern Region. For the twelve months ended December 31, 2019, homebuilding revenue in our Southern region increased \$116.7 million, from \$1,301.0 million in 2018 to \$1,417.7 million in 2019. This 9% increase in homebuilding revenue was primarily the result of a 10% increase in the number of homes delivered (353 units) and a \$1.7 million increase in land sale revenue, partially offset by a 1% decrease in the average sales price of homes delivered (\$4,000 per home delivered). Operating income in our Southern region increased \$19.2 million from \$95.9 million in 2018 to \$115.1 million in 2019. This increase in operating income was the result of a \$24.8 million improvement in our gross margin, offset, in part, by a \$5.6 million increase in selling, general, and administrative expense. With respect to our homebuilding gross margin, our gross margin on homes delivered improved \$26.1 million, due primarily to the 10% increase in the number of homes delivered noted above and the \$3.9 million decline in

pre-tax impairment charges recorded in 2019 compared to prior year. Our housing gross margin percentage improved 40 basis points from 17.5% in 2018 to 17.9% in 2019. Exclusive of the impairment charges in both 2019 and 2018, our adjusted housing gross margin percentage improved 10 basis points from 17.9% in 2018 to 18.0% in 2019 largely due to the mix of communities delivering homes and a more favorable product mix, offset, in part, by rising lot and construction costs. Our land sale gross margin declined \$1.3 million as a result of the mix of lots sold in the current year compared to the prior year.

Selling, general and administrative expense increased \$5.6 million from \$130.5 million in 2018 to \$136.1 million in 2019 but declined as a percentage of revenue to 9.6% in 2019 from 10.0% in 2018. The increase in selling, general and administrative expense was attributable, in part, to a \$6.0 million increase in selling expense due to (1) a \$5.3 million increase in variable selling expenses resulting from increases in sales commissions produced by the higher number of homes delivered, and (2) a \$0.7 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 \$0.4 million decrease in general and administrative expense, which was primarily related to a decrease in professional fees, partially offset by an increase in incentive compensation expense related to improved operating results.

During 2019, we experienced a 15% increase in new contracts in our Southern region, from 3,539 in 2018 to 4,078 in 2019, and a 21% increase in backlog from 1,264 homes at December 31, 2018 to 1,528 homes at December 31, 2019. The increases in new contracts and backlog were primarily due to changes in product type and market mix as well as due to an increase in our average number of communities during the period, along with improvement in demand across our Southern markets compared to prior year. Average sales price in backlog decreased to \$368,000 at December 31, 2019 from \$385,000 at December 31, 2018 primarily due to a change in product type and market mix due to an increase of our more affordable Smart Series homes sold. During 2019, we opened 52 communities in our Southern region compared to 41 in 2018. Our monthly absorption rate in our Southern region improved to 2.7 per community in 2019 from 2.4 per community in 2018.

Financial Services. Revenue from our mortgage and title operations increased \$3.1 million, or 6%, from \$52.2 million for the twelve months ended December 31, 2018 to a record \$55.3 million for the twelve months ended December 31, 2019 as a result of a 13% increase in the number of loan originations, from 3,964 in 2018 to 4,476 in 2019, and an increase in the average loan amount from \$303,000 in 2018 to \$309,000 in 2019, partially offset by lower margins on loans sold during the period than we experienced in 2018, primarily in the first quarter of 2019.

Our financial service operations ended 2019 with a \$0.1 million decrease in operating income compared to 2018, which was primarily due to the \$3.3 million increase in selling, general and administrative expense compared to 2018 partially offset by the increase in our revenue discussed above. The increase in selling, general and administrative expense was attributable to an increase in compensation expense related to our increase in employee headcount along with costs associated with opening new mortgage and title offices in certain markets.

At December 31, 2019, M/I Financial provided financing services in all of our markets. Approximately 82% of our homes delivered during 2019 were financed through M/I Financial, compared to 80% during 2018. Capture rate is influenced by financing availability and can fluctuate from quarter to quarter.

Corporate Selling, General and Administrative Expenses. Corporate selling, general and administrative expense increased \$5.2 million, from \$46.4 million in 2018 to \$51.6 million in 2019. The increase was primarily due to a \$4.2 million increase in compensation expense, a \$0.5 million increase related to costs associated with new information systems, a \$0.3 million increase in charitable contributions, and a \$0.2 million increase in other miscellaneous expenses.

Acquisition and Integration Costs. During 2018, the Company incurred \$1.7 million in acquisition and integration related costs related to our acquisition of Pinnacle Homes in Detroit, Michigan on March 1, 2018. These costs include, but are not limited to, legal fees and expenses, travel and communication expenses, cost of appraisals, accounting fees and expenses, and miscellaneous expenses. As these costs are not eligible for capitalization as initial direct costs under GAAP, such amounts are expensed as incurred. No such costs were incurred in 2019.

Equity in income from joint venture arrangements. Equity in income from joint venture arrangements represents our portion of pre-tax earnings from our joint venture arrangements where a special purpose entity is established (“LLCs”) with the other partners. In both 2019 and 2018, the Company earned \$0.3 million in equity income from its LLCs.

Interest Expense - Net. Interest expense for the Company increased \$0.9 million from \$20.5 million in the twelve months ended December 31, 2018 to \$21.4 million in the twelve months ended December 31, 2019. This increase was primarily the result of an increase in our weighted average borrowings from \$801.0 million in 2018 to \$842.4 million in 2019 due to increased borrowings under our Credit Facility (as defined below) during 2019 compared to 2018, offset, in part, by a decrease in our weighted average

interest rate from 6.22% in 2018 to 6.17% in the 2019 as well as higher capitalized interest related to our increased land development and home construction during 2019 compared to prior year.

Income Taxes. Our overall effective tax rate was 23.2% for the year ended December 31, 2019 and 23.8% for the year ended December 31, 2018. The decline in the effective rate for the twelve months ended December 31, 2019 was primarily attributable to an increased tax benefit from equity compensation (see [Note 14](#) to our Consolidated Financial Statements for more information).

Segment Non-GAAP Financial Measures. This report contains information about our adjusted housing gross margin, which constitutes a non-GAAP financial measure. Because adjusted housing gross margin is not calculated in accordance with GAAP, this financial measure may not be completely comparable to similarly-titled measures used by other companies in the homebuilding industry and, therefore, should not be considered in isolation or as an alternative to operating performance and/or financial measures prescribed by GAAP. Rather, this non-GAAP financial measure should be used to supplement our GAAP results in order to provide a greater understanding of the factors and trends affecting our operations.

Adjusted housing gross margin for each of our reportable segments is calculated as follows:

(Dollars in thousands)	Year Ended December 31,		
	2019	2018	2017
Northern region:			
Housing revenue	\$ 1,020,362	\$ 932,248	\$ 738,743
Housing cost of sales	837,606	767,445	590,423
Housing gross margin	182,756	164,803	148,320
Add: Impairment ^(a)	3,395	273	—
Add: Acquisition-related charges ^(b)	639	5,147	—
Adjusted housing gross margin	\$ 186,790	\$ 170,223	\$ 148,320
Housing gross margin percentage	17.9%	17.7%	20.1%
Adjusted housing gross margin percentage	18.3%	18.3%	20.1%
Southern region:			
Housing revenue	\$ 1,399,986	\$ 1,284,949	\$ 1,139,829
Housing cost of sales	1,149,137	1,060,224	947,423
Housing gross margin	250,849	224,725	192,406
Add: Impairment ^(a)	1,607	5,536	7,681
Add: Stucco-related charges ^(c)	—	—	8,500
Adjusted housing gross margin	\$ 252,456	\$ 230,261	\$ 208,587
Housing gross margin percentage	17.9%	17.5%	16.9%
Adjusted housing gross margin percentage	18.0%	17.9%	18.3%

(a) Represents asset impairment charges taken during the respective periods.

(b) Represents acquisition-related charges from our acquisition of Pinnacle Homes in Detroit, Michigan on March 1, 2018.

(c) Represents warranty charges for stucco-related repair costs in certain of our Florida communities taken during 2017. With respect to this matter, during 2019, we identified 116 additional homes in need of repair and completed repairs on 139 homes, and at December 31, 2019, we have 136 homes in various stages of repair. See [Note 8](#) to our Consolidated Financial Statements for further information.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

For a comparison of our results of operations for the fiscal years ended December 31, 2018 and December 31, 2017, see “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, filed with the SEC on February 22, 2019.

LIQUIDITY AND CAPITAL RESOURCES

Overview of Capital Resources and Liquidity

At December 31, 2019, we had \$6.1 million of cash, cash equivalents and restricted cash, with \$5.9 million of this amount comprised of unrestricted cash and cash equivalents, which represents a \$15.0 million decrease in unrestricted cash and cash equivalents from December 31, 2018. Our principal uses of cash during 2019 were investment in land and land development, construction of homes, mortgage loan originations, investment in joint ventures, operating expenses, short-term working capital, debt service requirements,

including the repayment of amounts outstanding under our credit facilities, and the repurchase of \$5.2 million of our outstanding common shares under our 2018 Share Repurchase Program (as defined below) during the first quarter of 2019. In order to fund these uses of cash, we used proceeds from home deliveries, the sale of mortgage loans and the sale of mortgage servicing rights, as well as excess cash balances, borrowings under our credit facilities, and other sources of liquidity.

In addition, in January 2020, we issued \$400 million aggregate principal amount of 2028 Senior Notes at par, for net proceeds of approximately \$393.9 million. We used \$300.4 million of the net proceeds from the issuance of the 2028 Senior Notes to redeem all \$300.0 million aggregate principal amount of our 6.75% Senior Notes due 2021, at par, and used the remaining net proceeds to repay a portion of our outstanding borrowings under the Credit Facility.

We are actively acquiring and developing lots in our markets to replenish and grow our lot supply and active community count. We expect to continue to expand our business based on the anticipated level of demand for new homes in our markets. Accordingly, we expect that our cash outlays for land purchases, land development, home construction and operating expenses will exceed our cash generated by operations during some periods in 2020, and we expect to continue to utilize our Credit Facility in 2020.

During the year ended December 31, 2019, we delivered 6,296 homes, started 6,508 homes, and spent \$332.1 million on land purchases and \$268.3 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 \$650 million to \$700 million on land purchases and land development during 2020.

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 such land option agreements, as of December 31, 2019, we had a total of 18,593 lots under contract, with an aggregate purchase price of approximately \$685.0 million, to be acquired during the period from 2020 through 2029.

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 2020 compared to 2019 is driven primarily by the growth of our business.

Operating Cash Flow Activities. During 2019, we generated \$65.6 million of cash from operating activities, compared to using \$2.6 million of cash in operating activities in 2018. The cash provided by operating activities in 2019 was primarily a result of net income of \$127.6 million and \$12.1 million of proceeds from the sale of mortgage loans net of mortgage loan originations, offset partially by an \$88.4 million increase in inventory and a \$17.5 million decrease in accounts payable and other liabilities. The cash used in operating activities in 2018 was primarily a result of a \$157.6 million increase in inventory, offset partially by net income of \$107.7 million and an increase in accounts payable, accrued compensation, other liabilities, and customer deposits totaling \$20.2 million.

Investing Cash Flow Activities. During 2019, we used \$27.6 million of cash in investing activities, compared to using \$134.0 million of cash in investing activities during 2018. This \$106.4 million decrease in cash usage was primarily due to our acquisition of Pinnacle Homes, a privately held homebuilder in Detroit, Michigan, during the first quarter of 2018 for \$101.0 million (see Note 7 to our Consolidated Financial Statements for more information), in addition to \$6.3 million in proceeds received in 2019 related to the sale of our corporate headquarters' building.

Financing Cash Flow Activities. During 2019, we used \$53.5 million of cash from our financing activities, compared to generating \$6.4 million of cash from our financing activities during 2018. The increase in cash used in financing activities was primarily due to increased repayments (net of borrowings) under our Credit Facility (as defined below) during 2019, partially offset by the repayment during the first quarter of 2018 of \$65.9 million of our 3.0% Convertible Senior Subordinated Notes due 2018 (the "2018 Convertible Senior Subordinated Notes") in connection with their maturity, along with a \$19.1 million increase in proceeds from stock options in 2019, and a \$20.6 million decrease in common shares repurchased during 2019 compared to 2018.

On August 14, 2018, the Company announced that its Board of Directors authorized a share repurchase program (the "2018 Share Repurchase Program") pursuant to which the Company may purchase up to \$50 million of its outstanding common shares (see [Note 18](#) to our Consolidated Financial Statements). During 2019, the Company repurchased 0.2 million common shares with an aggregate purchase price of \$5.2 million which was funded with cash on hand and borrowings under our Credit Facility. As of December 31, 2019, the Company has repurchased 1.3 million outstanding common shares at an aggregate purchase price of \$30.9 million under the 2018 Share Repurchase Program and \$19.1 million remains available for repurchases under the 2018 Share Repurchase Program.

At December 31, 2019 and December 31, 2018, our ratio of homebuilding debt to capital was 38% and 44%, respectively, calculated as the carrying value of our outstanding homebuilding debt divided by the sum of the carrying value of our outstanding homebuilding debt plus shareholders' equity. This decrease compared to December 31, 2018 was due to lower homebuilding debt levels compared to December 31, 2018 in addition to an increase in shareholders' equity at December 31, 2019. We believe that this ratio provides useful information for understanding our financial position and 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 and debt service 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. As an example, in January 2020, we issued \$400.0 million aggregate principal amount of 2028 Senior Notes and used a portion of the net proceeds to redeem all \$300.0 million aggregate principal amount of our 2021 Senior Notes, as described above. 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 \$500 million unsecured revolving credit facility dated July 18, 2013, as amended, with M/I Homes, Inc. as borrower and guaranteed by the Company's wholly owned homebuilding subsidiaries (the "Credit Facility"); (2) a \$125 million secured mortgage warehousing agreement, (which increases to \$160 million during certain periods), dated June 24, 2016, as amended, with M/I Financial as borrower (the "MIF Mortgage Warehousing Agreement"); and (3) a \$65 million mortgage repurchase agreement, dated October 30, 2017, as amended, with M/I Financial as borrower (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 December 31, 2019:

(In thousands)	Expiration Date	Outstanding Balance	Available Amount
Notes payable – homebuilding ^(a)	7/18/2021	\$ 66,000	\$ 364,852
Notes payable – financial services ^(b)	(b)	\$ 136,904	\$ 14,652

(a) The available amount under the Credit Facility is computed in accordance with the borrowing base calculation under the Credit Facility, which applies various advance rates for different categories of inventory and totaled \$666.6 million of availability for additional senior debt at December 31, 2019. As a result, the full \$500 million commitment amount of the facility was available, less any borrowings and letters of credit outstanding. There were \$66.0 million borrowings outstanding and \$69.1 million of letters of credit outstanding at December 31, 2019, leaving \$364.9 million available. The Credit Facility has an expiration date of July 18, 2021.

(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 December 31, 2019 was \$225 million, which included a temporary increase for the MIF Mortgage Warehouse Agreement which was applicable through February 4, 2020 (as described below) at which time the maximum aggregate commitment amount under the two agreements reverted to \$190 million. The MIF Mortgage Warehousing Agreement has an expiration date of June 19, 2020 and the MIF Mortgage Repurchase Facility has an expiration date of October 26, 2020.

Notes Payable - Homebuilding.

Homebuilding Credit Facility. The Credit Facility provides for an aggregate commitment amount of \$500 million, including a \$125 million sub-facility for letters of credit. The Credit Facility matures on July 18, 2021. Interest on amounts borrowed under the Credit Facility is payable at a rate which is adjusted daily and is equal to the sum of the one month LIBOR rate plus a margin of 250 basis points. The margin is subject to adjustment in subsequent quarterly periods based on the Company's leverage ratio.

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 covenants which require, among other things, that the Company maintain (1) a minimum level of Consolidated Tangible Net Worth (\$586.2 million at December 31, 2019 and 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 amount of available liquidity. 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 (each as defined in the Credit Facility).

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 16](#) to our Consolidated Financial Statements), 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 2028 Senior Notes and 2025 Senior Notes and guaranteed our 2021 Senior Notes prior to their redemption in January 2020.

As of December 31, 2019, 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 December 31, 2019:

Financial Covenant		Covenant Requirement	Actual
(Dollars in millions)			
Consolidated Tangible Net Worth	≥	\$ 586.2	\$ 962.2
Leverage Ratio	≤	0.60	0.40
Interest Coverage Ratio	≥	1.5 to 1.0	5.1 to 1.0
Investments in Unrestricted Subsidiaries and Joint Ventures	≤	\$ 288.7	\$ 2.9
Unsold Housing Units and Model Homes	≤	2,500	1,389

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 MIF Mortgage Warehousing Agreement provides a maximum borrowing availability of \$125 million, which increased to \$160 million from November 15, 2019 to February 4, 2020 (a period of higher volume of mortgage originations). The MIF Mortgage Warehousing Agreement expires on June 19, 2020. Interest on amounts borrowed under the MIF Mortgage Warehousing Agreement is payable at a per annum rate equal to the floating LIBOR rate plus a spread of 200 basis points.

As is typical for similar credit facilities in the mortgage origination industry, at closing, the expiration of the MIF Mortgage Warehousing Agreement was set at approximately one year and is under consideration for extension annually by the participating lenders. We expect to extend the MIF Mortgage Warehousing Agreement on or prior to the current expiration date of June 19, 2020, but we cannot provide any assurance that we will be able to obtain such an extension.

The MIF Mortgage Warehousing Agreement is secured by certain mortgage loans originated by M/I Financial 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.

As of December 31, 2019, there was \$92.6 million outstanding under the MIF Mortgage Warehousing Agreement and M/I Financial was in compliance with all covenants thereunder. 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 December 31, 2019:

Financial Covenant		Covenant Requirement	Actual
(Dollars in millions)			
Leverage Ratio	≤	10.0 to 1.0	5.2 to 1.0
Liquidity	≥	\$ 6.3	\$ 23.4
Adjusted Net Income	>	\$ 0.0	\$ 13.0
Tangible Net Worth	≥	\$ 12.5	\$ 29.2

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. The MIF Mortgage Repurchase Facility provides for a maximum borrowing availability of \$65 million. The MIF Mortgage Repurchase Facility expires on October 26, 2020. 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.

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 175 or 200 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 no guarantors of the MIF Mortgage Repurchase Facility. As of December 31, 2019, there was \$44.3 million outstanding under the MIF Mortgage Repurchase Facility. M/I Financial was in compliance with all financial covenants under the MIF Mortgage Repurchase Facility as of December 31, 2019.

Senior Notes.

4.95% Senior Notes. On January 22, 2020, the Company issued \$400.0 million aggregate principal amount of 4.95% Senior Notes due 2028. The 2028 Senior Notes bear interest at a rate of 4.95% per year, payable semiannually in arrears on February 1 and August 1 of each year (commencing on August 1, 2020), and mature on February 1, 2028. The 2028 Senior Notes contain covenants substantially similar to the covenants described below for the 2025 Senior Notes, as more fully described and defined in the indenture governing the 2028 Senior Notes. The Company used a portion of the net proceeds from the issuance of the 2028 Senior Notes to redeem all of its outstanding 2021 Senior Notes at 100.000% of the principal amount outstanding on January 22, 2020. See Note 11 to our Consolidated Financial Statements for more information regarding the 2028 Senior Notes.

5.625% Senior Notes. In August 2017, the Company issued \$250 million aggregate principal amount of 5.625% Senior Notes due 2025. The 2025 Senior Notes contain certain covenants, as more fully described and defined in the indenture governing the 2025 Senior Notes, 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 2025 Senior Notes. As of December 31, 2019, the Company was in compliance with all terms, conditions, and covenants under the indenture. See [Note 11](#) to our Consolidated Financial Statements for more information regarding the 2025 Senior Notes.

Weighted Average Borrowings. In 2019 and 2018, our weighted average borrowings outstanding were \$842.4 million and \$801.0 million, respectively, with a weighted average interest rate of 6.17% and 6.22%, respectively. The increase in our weighted average borrowings primarily related to the increased borrowings under our Credit Facility in 2019 compared to 2018, partially offset by the maturity of our 2018 Convertible Senior Subordinated Notes in March 2018 (which were not outstanding at all during 2019). The decrease in our weighted average interest rate was due to increased borrowings under our Credit Facility which had a weighted-average interest rate of 4.3% compared to 5.0% for borrowings under our Credit Facility in 2018.

At December 31, 2019, we had \$66.0 million of outstanding borrowings under the Credit Facility, a decrease from \$117.4 million of outstanding borrowings at December 31, 2018. During the twelve months ended December 31, 2019, the company used the Credit Facility to fund investments in land and land development, construction of homes, mortgage loan originations, operating expenses, working capital requirements and share repurchases under our 2018 Share Repurchase Program. During the twelve months ended December 31, 2019, the average daily amount outstanding under the Credit Facility was \$208.6 million and the maximum amount outstanding under the Credit Facility was \$272.7 million. Based on our currently anticipated spending on home construction, land acquisition and development in 2020, offset by expected cash receipts from home deliveries, we expect to continue to borrow under the Credit Facility during 2020, with an estimated peak amount outstanding not expected to exceed \$250 million. The actual amount borrowed in 2020 (and the estimated 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, any repayments or redemptions of outstanding debt, any additional share repurchases under the 2018 Share Repurchase Program and any other extraordinary events or transactions. 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 \$69.1 million of letters of credit issued and outstanding under the Credit Facility at December 31, 2019. During 2019, the average daily amount of letters of credit outstanding under the Credit Facility was \$62.2 million and the maximum amount of letters of credit outstanding under the Credit Facility was \$70.9 million.

At December 31, 2019, M/I Financial had \$92.6 million outstanding under the MIF Mortgage Warehousing Agreement. During 2019, the average daily amount outstanding under the MIF Mortgage Warehousing Agreement was \$52.6 million and the maximum

amount outstanding was \$113.0 million, which occurred during January, while the temporary increase provision was in effect and the maximum borrowing availability was \$160.0 million.

At December 31, 2019, M/I Financial had \$44.3 million outstanding under the MIF Mortgage Repurchase Facility. During 2019, the average daily amount outstanding under the MIF Mortgage Repurchase Facility was \$27.3 million and the maximum amount outstanding was \$48.1 million, which occurred during December, when the maximum borrowing availability was \$65.0 million.

Universal Shelf Registration. In June 2019, the Company filed a \$400 million universal shelf registration statement with the SEC, which registration statement became effective upon filing and will expire in June 2022. 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

Included in the table below is a summary, as of December 31, 2019, of future cash requirements under the Company's contractual obligations:

(In thousands)	Payments due by period				
	Total	Less Than 1 year	1 - 3 Years	3 - 5 Years	More than 5 years
Notes payable bank – homebuilding operations ^(a)	\$ 66,534	\$ 534	\$ 66,000	\$ —	\$ —
Notes payable bank – financial services ^(b)	137,169	137,169	—	—	—
Notes payable – other (including interest)	6,262	3,447	2,419	396	—
Senior notes (including interest)	662,219	34,313	335,719	28,125	264,062
Obligation for consolidated inventory not owned ^(c)	7,934	7,934	—	—	—
Operating leases	41,398	7,449	13,217	9,141	11,591
Total	\$ 921,516	\$ 190,846	\$ 417,355	\$ 37,662	\$ 275,653

- (a) At December 31, 2019, there were \$66.0 million of borrowings outstanding under the Credit Facility. Interest on amounts borrowed under the Credit Facility is payable at a rate which is adjusted daily and is equal to the sum of the one month LIBOR rate plus a margin of 250 basis points. The margin is subject to adjustment in subsequent quarterly periods based on the Company's leverage ratio. Borrowings outstanding at December 31, 2019 had a weighted average interest rate of 4.3%. Interest payments by period will be based upon the outstanding borrowings and the applicable interest rate(s) in effect. See [Note 11](#) to our Consolidated Financial Statements for additional information.
- (b) Borrowings under the MIF Mortgage Warehousing Agreement are at the floating LIBOR rate plus a spread of 200 basis points. Borrowings under the MIF Mortgage Repurchase Facility are at the floating LIBOR rate plus 175 or 200 basis points, depending on the loan type. Total borrowings outstanding under both agreements at December 31, 2019 had a weighted average interest rate of 3.8%. Interest payments by period will be based upon the outstanding borrowings and the applicable interest rate(s) in effect.
- (c) The Company is party to certain land purchase agreements in which the Company has specific performance requirements. The future amounts payable related to these land purchase agreements is the number of lots the Company is obligated to purchase at the lot price set forth in the agreement. In addition, the amount of deposits and prepaid acquisition and development costs on certain land purchase agreements have exceeded thresholds relative to the remaining purchase price of the lots for those agreements, such that the remaining purchase price of the lots is recorded as an Obligation for consolidated inventory not owned on our Consolidated Balance Sheets. In each case, the time period in which these payments will be made is the Company's best estimate of when these lots will be purchased.

OFF-BALANCE SHEET ARRANGEMENTS

Reference is made to Notes [6](#), [7](#), and [8](#) in the accompanying Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K. These Notes 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 joint venture arrangements, 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, M/I Financial issues guarantees and indemnities relating to the sale of loans to third parties.

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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk results from fluctuations in interest rates. We are exposed to interest rate risk through borrowings under our revolving credit facilities, consisting of the Credit Facility, the MIF Mortgage Warehousing Agreement, and the MIF Mortgage Repurchase Facility which permitted borrowings of up to \$725 million at December 31, 2019, 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 homebuying 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 nine months.

Some IRLCs are committed to a specific third party investor through the use of 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 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 whole loan 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 December 31, 2019 and 2018:

Description of Financial Instrument (in thousands)	December 31,	
	2019	2018
Whole loan contracts and related committed IRLCs	\$ 1,445	\$ 5,823
Uncommitted IRLCs	87,340	76,117
FMBSs related to uncommitted IRLCs	88,000	83,000
Whole loan contracts and related mortgage loans held for sale	6,125	14,285
FMBSs related to mortgage loans held for sale	144,000	150,000
Mortgage loans held for sale covered by FMBSs	144,411	149,980

The table below shows the measurement of assets and liabilities at December 31, 2019 and 2018:

Description of Financial Instrument (in thousands)	December 31,	
	2019	2018
Mortgage loans held for sale	\$ 155,244	\$ 169,651
Forward sales of mortgage-backed securities	(336)	(3,305)
Interest rate lock commitments	654	989
Whole loan contracts	(16)	(154)
Total	\$ 155,546	\$ 167,181

The following table sets forth the amount of gain (loss) recognized on assets and liabilities for the years ended December 31, 2019, 2018 and 2017:

Description (in thousands)	Year Ended December 31,		
	2019	2018	2017
Mortgage loans held for sale	\$ (2,261)	\$ 3,763	\$ 3,675
Forward sales of mortgage-backed securities	2,969	(3,482)	(53)
Interest rate lock commitments	(370)	783	21
Whole loan contracts	173	(231)	102
Total gain recognized	\$ 511	\$ 833	\$ 3,745

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 December 31, 2019. 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 December 31, 2019. 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.

(Dollars in thousands)	Expected Cash Flows by Period							Fair Value 12/31/2019
	2020	2021	2022	2023	2024	Thereafter	Total	
ASSETS:								
Mortgage loans held for sale:								
Fixed rate	\$156,115	—	—	—	—	—	\$156,115	\$152,977
Weighted average interest rate	3.73%	—	—	—	—	—	3.73%	
Variable rate	\$2,254	—	—	—	—	—	\$2,254	\$2,267
Weighted average interest rate	3.4%	—	—	—	—	—	3.4%	
LIABILITIES:								
Long-term debt — fixed rate	\$1,675	\$301,215	\$1,039	\$304	\$77	\$250,000	\$554,310	\$564,663
Weighted average interest rate	5.63%	6.73%	5.63%	5.63%	5.63%	5.63%	6.23%	
Short-term debt — variable rate	\$202,904	—	—	—	—	—	\$202,904	\$202,904
Weighted average interest rate	3.94%	—	—	—	—	—	3.94%	

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of M/I Homes, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of M/I Homes, Inc. and subsidiaries (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of income, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 21, 2020, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Valuation of Inventory - Refer to Notes 1, 3 and 4 to the financial statements

Critical Audit Matter Description

Inventory includes the costs of land acquisition, land development and home construction, capitalized interest, real estate taxes, direct overhead costs incurred during development and home construction, and common costs that benefit the entire community, less impairments, if any. Inventory is recorded at cost, unless events and circumstances indicate that the carrying value of the inventory is impaired, at which point the inventory is written down to fair value. Management assesses inventory for recoverability on a quarterly basis to determine if events or changes in local or national economic conditions indicate that the carrying amount of an asset may not be recoverable. The inventory balance was \$1.77 billion and \$1.67 billion at December 31, 2019 and 2018, respectively.

In conducting the review for impairment indicators, management evaluates certain qualitative and quantitative factors at the community level. This includes, among other things, margins on sales contracts in backlog; the margins on homes that have been

delivered; expected changes in margins with regard to future home sales over the life of the community and with regard to future land sales; the value of the land itself as well as any results from third-party appraisals; selling strategies; or alternative land uses (including disposition of all or a portion of the land owned).

Given the subjectivity in determining whether qualitative or quantitative impairment indicators are present for a community, management exercises significant judgment in the identification of whether impairment indicators are present. Accordingly, auditing management's assessment of impairment indicators requires a high degree of auditor judgment and an increased extent of effort.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the Company's identification of impairment indicators for inventory included the following, among others:

- We tested the operating effectiveness of controls over management's evaluation of impairment indicators.
- We evaluated the reasonableness of management's assessment of impairment indicators by:
 - Evaluating management's process for identifying qualitative impairment indicators by community and whether management appropriately considered such indicators.
 - Evaluating management's process for identifying quantitative impairment indicators by community and whether management appropriately considered such indicators.
 - Conducting a completeness assessment to determine whether additional impairment indicators were present during the period that were not identified by management.

/s/ Deloitte & Touche LLP

Columbus, Ohio
February 21, 2020

We have served as the Company's auditor since 1976.

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

(In thousands, except per share amounts)	Year Ended		
	2019	2018	2017
Revenue	\$ 2,500,290	\$ 2,286,282	\$ 1,961,971
Costs and expenses:			
Land and housing	2,005,861	1,836,704	1,561,022
Impairment of inventory and investment in joint venture arrangements	5,002	5,809	7,681
General and administrative	147,954	137,779	126,282
Selling	154,384	142,829	128,327
Acquisition and integration costs	—	1,700	—
Equity in income from joint venture arrangements	(311)	(312)	(539)
Interest	21,375	20,484	18,874
Total costs and expenses	\$ 2,334,265	\$ 2,144,993	\$ 1,841,647
Income before income taxes	166,025	141,289	120,324
Provision for income taxes	38,438	33,626	48,243
Net income	\$ 127,587	\$ 107,663	\$ 72,081
Preferred dividends	—	—	3,656
Excess of fair value over book value of preferred shares redeemed	—	—	2,257
Net income available to common shareholders	\$ 127,587	\$ 107,663	\$ 66,168
Earnings per common share:			
Basic	\$ 4.58	\$ 3.81	\$ 2.57
Diluted	\$ 4.48	\$ 3.70	\$ 2.26
Weighted average shares outstanding:			
Basic	27,846	28,234	25,769
Diluted	28,475	29,178	30,688

See Notes to Consolidated Financial Statements.

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

(Dollars in thousands, except par values)	December 31,	
	2019	2018
ASSETS:		
Cash, cash equivalents and restricted cash	\$ 6,083	\$ 21,529
Mortgage loans held for sale	155,244	169,651
Inventory	1,769,507	1,674,460
Property and equipment - net	22,118	29,395
Investment in joint venture arrangements	37,885	35,870
Operating lease right-of-use assets	18,415	—
Deferred income tax asset	9,631	13,482
Goodwill	16,400	16,400
Other assets	70,311	60,794
TOTAL ASSETS	\$ 2,105,594	\$ 2,021,581
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable	\$ 125,026	\$ 131,511
Customer deposits	34,462	32,055
Operating lease liabilities	18,415	—
Other liabilities	147,937	150,051
Community development district obligations	13,531	12,392
Obligation for consolidated inventory not owned	7,934	19,308
Notes payable bank - homebuilding operations	66,000	117,400
Notes payable bank - financial services operations	136,904	153,168
Notes payable - other	5,828	5,938
Senior notes due 2021 - net	298,988	297,884
Senior notes due 2025 - net	247,092	246,571
TOTAL LIABILITIES	\$ 1,102,117	\$ 1,166,278
Commitments and contingencies (Note 8)	—	—
SHAREHOLDERS' EQUITY:		
Common shares - \$.01 par value; authorized 58,000,000 shares at both December 31, 2019 and 2018; issued 30,137,141 shares at both December 31, 2019 and 2018	301	301
Additional paid-in capital	332,861	330,517
Retained earnings	708,579	580,992
Treasury shares - at cost - 1,750,685 and 2,620,923 shares at December 31, 2019 and 2018, respectively	(38,264)	(56,507)
TOTAL SHAREHOLDERS' EQUITY	\$ 1,003,477	\$ 855,303
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,105,594	\$ 2,021,581

See Notes to Consolidated Financial Statements.

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

(Dollars in thousands)	Preferred Shares		Common Shares		Additional Paid-in Capital	Retained Earnings	Treasury Shares	Total Shareholders' Equity
	Shares Outstanding	Amount	Shares Outstanding	Amount				
Balance at December 31, 2016	2,000	\$ 48,163	24,677,433	\$ 271	\$ 246,549	\$ 407,161	\$ (47,970)	\$ 654,174
Net income	—	—	—	—	—	72,081	—	72,081
Fair value over carrying value of preferred shares redeemed	—	2,257	—	—	—	(2,257)	—	—
Dividends declared to preferred shareholders	—	—	—	—	—	(3,656)	—	(3,656)
Common share issuance	—	—	2,415,903	24	57,476	—	—	57,500
Preferred shares redeemed	(2,000)	(50,420)	—	—	—	—	—	(50,420)
Stock options exercised	—	—	678,781	—	(2,255)	—	13,480	11,225
Stock-based compensation expense	—	—	—	—	6,044	—	—	6,044
Deferral of executive and director compensation	—	—	—	—	350	—	—	350
Executive and director deferred compensation distributions	—	—	84,635	—	(1,681)	—	1,681	—
Balance at December 31, 2017	—	\$ —	27,856,752	\$ 295	\$ 306,483	\$ 473,329	\$ (32,809)	\$ 747,298
Net income	—	—	—	—	—	107,663	—	107,663
Common share issuance for conversion of convertible notes	—	—	628,515	6	20,303	—	—	20,309
Repurchase of common shares	—	—	(1,069,043)	—	—	—	(25,709)	(25,709)
Stock options exercised	—	—	38,628	—	(254)	—	792	538
Stock-based compensation expense	—	—	—	—	5,974	—	—	5,974
Deferral of executive and director compensation	—	—	—	—	185	—	—	185
Executive and director deferred compensation distributions	—	—	61,366	—	(2,174)	—	1,219	(955)
Balance at December 31, 2018	—	\$ —	27,516,218	\$ 301	\$ 330,517	\$ 580,992	\$ (56,507)	\$ 855,303
Net income	—	—	—	—	—	127,587	—	127,587
Repurchase of common shares	—	—	(201,088)	—	—	—	(5,150)	(5,150)
Stock options exercised	—	—	954,370	—	(1,204)	—	20,848	19,644
Stock-based compensation expense	—	—	—	—	5,846	—	—	5,846
Deferral of executive and director compensation	—	—	—	—	247	—	—	247
Executive and director deferred compensation distributions	—	—	116,956	—	(2,545)	—	2,545	—
Balance at December 31, 2019	—	\$ —	28,386,456	\$ 301	\$ 332,861	\$ 708,579	\$ (38,264)	\$ 1,003,477

See Notes to Consolidated Financial Statements.

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

Year Ended December 31,

(Dollars in thousands)	2019	2018	2017
OPERATING ACTIVITIES:			
Net income	\$ 127,587	\$ 107,663	\$ 72,081
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Impairment of inventory and investment in joint venture arrangements	5,002	5,809	7,681
Equity in income from joint venture arrangements	(311)	(312)	(539)
Mortgage loan originations	(1,382,695)	(1,200,474)	(1,078,520)
Net loss (gain) from property disposals	(448)	—	—
Proceeds from the sale of mortgage loans	1,394,841	1,206,167	1,064,635
Fair value adjustment of mortgage loans held for sale	2,261	(3,764)	(3,675)
Capitalization of originated mortgage servicing rights	(4,684)	(4,550)	(5,005)
Amortization of mortgage servicing rights	1,547	784	1,069
Gain on sale of mortgage servicing rights	—	(1,224)	(654)
Depreciation	11,691	10,956	9,630
Amortization of debt discount and debt issue costs	2,712	2,791	3,475
Stock-based compensation expense	5,846	5,974	6,044
Deferred income tax expense	3,851	4,957	12,437
Change in assets and liabilities:			
Inventory	(88,358)	(157,573)	(168,622)
Other assets	(2,072)	2,044	(186)
Accounts payable	(6,485)	3,750	14,021
Customer deposits	2,407	1,521	4,222
Accrued compensation	3,944	3,486	2,338
Other liabilities	(11,005)	9,403	6,384
Net cash provided by (used in) operating activities	65,631	(2,592)	(53,184)
INVESTING ACTIVITIES:			
Purchase of property and equipment	(4,526)	(8,141)	(8,799)
Acquisition	—	(100,960)	—
Return of capital from joint venture arrangements	812	676	3,518
Investment in and advances to joint venture arrangements	(30,188)	(31,867)	(12,088)
Proceeds from sale of mortgage servicing rights	—	6,335	8,212
Proceeds from sale of property	6,308	—	—
Net cash used in investing activities	(27,594)	(133,957)	(9,157)
FINANCING ACTIVITIES:			
Net proceeds from issuance of senior notes	—	—	250,000
Repayment of convertible senior subordinated notes	—	(65,941)	—
Proceeds from bank borrowings - homebuilding operations	696,500	666,600	398,300
Repayment of bank borrowings - homebuilding operations	(747,900)	(549,200)	(438,600)
(Net repayment of) net proceeds from bank borrowings - financial services operations	(16,264)	(15,027)	15,300
(Principal repayments of) proceeds from notes payable-other and community development	(110)	(4,638)	4,161
Redemption of preferred shares	—	—	(50,420)
Dividends paid on preferred shares	—	—	(3,656)
Repurchase of common shares	(5,150)	(25,709)	—
Debt issue costs	(203)	(248)	(6,707)
Proceeds from exercise of stock options	19,644	538	11,225
Net cash (used in) provided by financing activities	(53,483)	6,375	179,603
Net (decrease) increase in cash, cash equivalents and restricted cash	(15,446)	(130,174)	117,262
Cash, cash equivalents and restricted cash balance at beginning of period	21,529	151,703	34,441
Cash, cash equivalents and restricted cash balance at end of period	\$ 6,083	\$ 21,529	\$ 151,703
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest — net of amount capitalized	\$ 18,962	\$ 17,793	\$ 10,168
Income taxes	\$ 36,993	\$ 25,279	\$ 36,802
NON-CASH TRANSACTIONS DURING THE PERIOD:			
Community development district infrastructure	\$ 1,139	\$ (657)	\$ 12,573
Consolidated inventory not owned	\$ (11,374)	\$ (2,237)	\$ 14,017
Distribution of single-family lots from joint venture arrangements	\$ 27,672	\$ 16,158	\$ 16,600
Common stock issued for conversion of convertible notes	\$ —	\$ 20,309	\$ 57,500

See Notes to Consolidated Financial Statements.

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

NOTE 1. Summary of Significant Accounting Policies

Business. M/I Homes, Inc. and its subsidiaries (the “Company” or “we”) is engaged primarily in the construction and sale of single-family residential homes in Columbus and Cincinnati, Ohio; Indianapolis, Indiana; Chicago, Illinois; Minneapolis/St. Paul, Minnesota; Detroit, Michigan; Tampa, Orlando and Sarasota, Florida; Austin, Dallas/Fort Worth, Houston and San Antonio, Texas; and Charlotte and Raleigh, North Carolina. The Company designs, sells and builds single-family homes on developed lots, which it develops or purchases ready for home construction. The Company also purchases undeveloped land to develop into developed lots for future construction of single-family homes and, on a limited basis, for sale to others. Our homebuilding operations operate across two geographic regions in the United States. Within these regions, our operations have similar economic characteristics; therefore, they have been aggregated into two reportable homebuilding segments: Southern homebuilding and Northern homebuilding.

The Company conducts mortgage financing activities through its 100%-owned subsidiary, M/I Financial, LLC (“M/I Financial”), which originates mortgage loans primarily for purchasers of the Company’s homes. The loans and the servicing rights are generally sold to outside mortgage lenders. The Company and M/I Financial also operate 100% and majority-owned subsidiaries that provide title services to purchasers of the Company’s homes. Our mortgage banking and title service activities have similar economic characteristics; therefore, they have been aggregated into one reportable segment, the financial services segment.

Basis of Presentation. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and include the accounts of M/I Homes, Inc. and those of our consolidated subsidiaries, partnerships and other entities in which we have a controlling financial interest, and of variable interest entities in which we are deemed the primary beneficiary. Intercompany balances and transactions have been eliminated in consolidation. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates and have a significant impact on the financial condition and results of operations and cash flows.

Reclassifications. As a result of the Company's change in reportable segments during the second quarter of 2019, the Company recast certain prior year amounts in the Consolidated Financial Statements to conform with the 2019 presentation (see [Note 15](#) to our Consolidated Financial Statements). These reclassifications had no impact on the Company's results of operations.

Cash, Cash Equivalents and Restricted Cash. Cash and cash equivalents are liquid investments with an initial maturity of three months or less. Amounts in transit from title companies for homes delivered are included in this balance at December 31, 2019 and 2018, respectively.

Restricted cash consists of amounts held in restricted accounts as collateral for letters of credit as well as cash held in escrow. Cash, Cash Equivalents and Restricted Cash includes restricted cash balances of \$0.2 million and \$0.7 million at December 31, 2019 and 2018, respectively.

Mortgage Loans Held for Sale. Mortgage loans held for sale consists primarily of single-family residential loans collateralized by the underlying property. Generally, all of the mortgage loans and related servicing rights are sold to third-party investors shortly after origination. Refer to the Revenue Recognition policy described below for additional discussion.

Inventory. Inventory includes the costs of land acquisition, land development and home construction, capitalized interest, real estate taxes, direct overhead costs incurred during development and home construction, and common costs that benefit the entire community, less impairments, if any. Land acquisition, land development and common costs (both incurred and estimated to be incurred) are typically allocated to individual lots based on the total number of lots expected to be closed in each community or phase, or based on the relative fair value, the relative sales value or the front footage method of each lot. Any changes to the estimated total development costs of a community or phase are allocated proportionately to homes remaining in the community or phase and homes previously closed. The cost of individual lots is transferred to homes under construction when home construction begins. Home construction costs are accumulated on a specific identification basis. Costs of home deliveries include the specific construction cost of the home and the allocated lot costs. Such costs are charged to cost of sales simultaneously with revenue recognition, as discussed above. When a home is closed, we typically have not yet paid all incurred costs necessary to complete the home. As homes close, we compare the home construction budget to actual recorded costs to date to estimate the additional costs to be incurred from our subcontractors related to the home. We record a liability and a corresponding charge to cost of sales for the amount we estimate will ultimately be paid related to that home. We monitor the accuracy of such estimates by comparing

actual costs incurred in subsequent months to the estimate, although actual costs to complete a home in the future could differ from our estimates.

Inventory is recorded at cost, unless events and circumstances indicate that the carrying value of the inventory is impaired, at which point the inventory is written down to fair value as required by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 360-10, *Property, Plant and Equipment* (“ASC 360”). The Company assesses inventory for recoverability on a quarterly basis to determine if events or changes in local or national economic conditions indicate that the carrying amount of an asset may not be recoverable. In conducting our quarterly review for indicators of impairment on a community level, we evaluate, among other things, margins on sales contracts in backlog, the margins on homes that have been delivered, expected changes in margins with regard to future home sales over the life of the community, expected changes in margins with regard to future land sales, the value of the land itself as well as any results from third party appraisals. We pay particular attention to communities in which inventory is moving at a slower than anticipated absorption pace, and communities whose average sales price and/or margins are trending downward and are anticipated to continue to trend downward. We also evaluate communities where management intends to lower the sales price or offer incentives in order to improve absorptions even if the community’s historical results do not indicate a potential for impairment. From the review of all of these factors, we identify communities whose carrying values may exceed their estimated undiscounted future cash flows and run a test for recoverability. For those communities whose carrying values exceed the estimated undiscounted future cash flows and which are deemed to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the communities exceeds the estimated fair value. Due to the fact that the Company’s cash flow models and estimates of fair values are based upon management estimates and assumptions, unexpected changes in market conditions and/or changes in management’s intentions with respect to the inventory may lead the Company to incur additional impairment charges in the future.

Our determination of fair value is based on projections and estimates, which are Level 3 measurement inputs. Because each inventory asset is unique, there are numerous inputs and assumptions used in our valuation techniques, including estimated average selling price, construction and development costs, absorption pace (reflecting any product mix change strategies implemented or to be implemented), selling strategies, alternative land uses (including disposition of all or a portion of the land owned), or discount rates, which could materially impact future cash flow and fair value estimates.

As of December 31, 2019, our projections generally assume a gradual improvement in market conditions over time. If communities are not recoverable based on estimated future undiscounted cash flows, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. The fair value of a community is estimated by discounting management’s cash flow projections using an appropriate risk-adjusted interest rate. As of both December 31, 2019 and December 31, 2018, we utilized discount rates ranging from 13% to 16% in our valuations. The discount rate used in determining each asset’s estimated fair value reflects the inherent risks associated with the related estimated cash flow stream, as well as current risk-free rates available in the market and estimated market risk premiums. For example, construction in progress inventory, which is closer to completion, will generally require a lower discount rate than land under development in communities consisting of multiple phases spanning several years of development.

Our quarterly assessments reflect management’s best estimates. Due to the inherent uncertainties in management’s estimates and uncertainties related to our operations and our industry as a whole, we are unable to determine at this time if and to what extent continuing future impairments will occur. Additionally, due to the volume of possible outcomes that can be generated from changes in the various model inputs for each community, we do not believe it is possible to create a sensitivity analysis that can provide meaningful information for the users of our consolidated financial statements. Further details relating to our assessment of inventory for recoverability are included in [Note 3](#) to our Consolidated Financial Statements.

Property and Equipment-net. The Company records property and equipment at cost and subsequently depreciates the assets using both straight-line and accelerated methods. Following are the major classes of depreciable assets and their estimated useful lives:

(In thousands)	Year Ended December 31,	
	2019	2018
Land, building and improvements	\$ —	\$ 11,824 ^(a)
Office furnishings, leasehold improvements, computer equipment and computer software	28,207	29,920
Transportation and construction equipment	10,061	10,064
Property and equipment	38,268	51,808
Accumulated depreciation	(16,150)	(22,413)
Property and equipment, net	\$ 22,118	\$ 29,395

(a) Includes the Company's home office building in Columbus, Ohio that met the sale classification criteria for the period ended September 30, 2018 as it was being actively marketed. The carrying value of the building as of December 31, 2018 was \$5.6 million. The Company measures assets held for sale at fair value on a nonrecurring basis and records impairment charges when the assets are deemed to be impaired. Assets held for sale are reported at the lower of cost or fair value. Costs to sell are accrued separately. The Company estimated the fair value of the building using the market values for similar properties, and the building was considered a Level 2 asset as defined in ASC 820, "Fair Value Measurements." During the twelve months ended December 31, 2019, the Company did not record any impairment charges on its asset held for sale. The Company sold the building on December 31, 2019.

	Estimated Useful Lives
Building and improvements	35 years
Office furnishings, leasehold improvements, computer equipment and computer software	3-7 years
Transportation and construction equipment	5-25 years

Depreciation expense was \$5.9 million, \$5.6 million and \$4.1 million in 2019, 2018 and 2017, respectively.

Goodwill. Goodwill represents the excess of the purchase price paid over the fair value of the net assets acquired and liabilities assumed in business combinations. As a result of the Company's acquisition of the homebuilding assets and operations of Pinnacle Homes in Detroit, Michigan on March 1, 2018, the Company recorded goodwill of \$16.4 million as of December 31, 2019, which is included as Goodwill in our Consolidated Balance Sheets. This amount was based on the estimated fair values of the acquired assets and assumed liabilities at the date of the acquisition in accordance with ASC 350, *Intangibles, Goodwill and Other* ("ASC 350"). The Company performed its annual goodwill impairment analysis during the fourth quarter of 2019, and as no indicators for impairment existed at December 31, 2019, no impairment was recorded. See [Note 12](#) to the Company's Consolidated Financial Statements for further discussion.

Other Assets. Other assets at December 31, 2019 and 2018 consisted of the following:

(In thousands)	Year Ended December 31,	
	2019	2018
Development reimbursement receivable from local municipalities	\$ 16,083	\$ 13,632
Mortgage servicing rights	9,614	6,477
Prepaid expenses	13,841	8,605
Prepaid acquisition costs	5,688	7,873
Other	25,085	24,207
Total other assets	\$ 70,311	\$ 60,794

Warranty Reserves. We use subcontractors for nearly all aspects of home construction. Although our subcontractors are generally required to repair and replace any product or labor defects, we are, during applicable warranty periods, ultimately responsible to the homeowner for making such repairs. As such, we record warranty reserves to cover our exposure to the costs for materials and labor not expected to be covered by our subcontractors to the extent they relate to warranty-type claims. Warranty reserves are established by charging cost of sales and crediting a warranty reserve for each home delivered. The amounts charged are estimated by management to be adequate to cover expected warranty-related costs under the Company's warranty programs. Warranty reserves are recorded for warranties under our Home Builder's Limited Warranty ("HBLW") and our transferable structural warranty (see additional information in [Note 8](#) to our Consolidated Financial Statements).

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

experienced during the period and the historical payment pattern used in our evaluation of the warranty reserve balance at the end of each quarter. Actual future warranty costs could differ from our current estimated amount.

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

Our warranty reserve amounts are based upon historical experience and geographic location. While we believe that our warranty reserves are sufficient to cover our projected costs, there can be no assurances that historical data and trends will accurately predict our actual warranty costs. At December 31, 2019 and 2018, warranty reserves of \$26.4 million and \$26.5 million, respectively, are included in Other Liabilities on the Consolidated Balance Sheets. See [Note 8](#) to our Consolidated Financial Statements for additional information related to our warranty reserves, including reserves related to stucco-related repairs in certain of our Florida communities.

Self-insurance Reserves. Self-insurance reserves are made for estimated liabilities associated with employee health care, workers' compensation, and general liability insurance. Our workers' compensation claims are insured by a third party. The reserves related to employee health care and workers' compensation are based on historical experience and open case reserves. Our general liability claims are insured by a third party, subject to a self-insured retention ("SIR"). The Company records a reserve for general liability claims falling below the Company's SIR. The reserve estimate is based on an actuarial evaluation of our past history of general liability claims, other industry specific factors and specific event analysis. At both December 31, 2019 and 2018, self-insurance reserves of \$2.7 million are included in Other Liabilities on the Consolidated Balance Sheets. The Company recorded expenses totaling \$9.5 million, \$9.2 million and \$8.9 million for all self-insured and general liability claims during the years ended December 31, 2019, 2018 and 2017, respectively.

Other Liabilities. Other liabilities at December 31, 2019 and 2018 consisted of the following:

(In thousands)	Year Ended December 31,	
	2019	2018
Accruals related to land development	\$ 48,694	\$ 46,073
Warranty	26,420	26,459
Payroll and other benefits	35,125	31,428
Other	37,698	46,091
Total other liabilities	\$ 147,937	\$ 150,051

Revenue Recognition. Revenue and the related profit from the sale of a home and revenue and the related profit from the sale of land to third parties are recognized in the financial statements on the date of closing if delivery has occurred, title has passed to the buyer, all performance obligations (as defined below) have been met, and control of the home or land is transferred to the buyer in an amount that reflects the consideration we expect to be entitled to in exchange for the home or land. If not received immediately upon closing, cash proceeds from home closings are held in escrow for the Company's benefit, typically for up to three days, and are included in Cash, cash equivalents and restricted cash on the Consolidated Balance Sheets.

Sales incentives vary by type of incentive and by amount on a community-by-community and home-by-home basis. The costs of any sales incentives in the form of free or discounted products and services provided to homebuyers are reflected in Land and housing costs in the Consolidated Statements of Income because such incentives are identified in our home purchase contracts with homebuyers as an intrinsic part of our single performance obligation to deliver and transfer title to their home for the transaction price stated in the contracts. Sales incentives that we may provide in the form of closing cost allowances are recorded as a reduction of housing revenue at the time the home is delivered.

We record sales commissions within Selling expenses in the Consolidated Statements of Income when incurred (i.e., when the home is delivered) as the amortization period is generally one year or less and therefore capitalization is not required as part of the practical expedient for incremental costs of obtaining a contract.

Contract liabilities include customer deposits related to sold but undelivered homes. Substantially all of our home sales are scheduled to close and be recorded to revenue within one year from the date of receiving a customer deposit. Contract liabilities expected to be recognized as revenue, excluding revenue pertaining to contracts that have an original expected duration of one year or less, is not material.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. All of our home purchase contracts have a single performance obligation as the promise to transfer the home is not separately identifiable from other promises in the contract and, therefore, not distinct. Our performance obligation, to deliver the agreed-upon home, is generally satisfied in less than one year from the original contract date. Deferred revenue resulting from uncompleted performance obligations existing at the time we deliver new homes to our homebuyers is not material.

Although our third party land sale contracts may include multiple performance obligations, the revenue we expect to recognize in any future year related to remaining performance obligations, excluding revenue pertaining to contracts that have an original expected duration of one year or less, is not material. We do not disclose the value of unsatisfied performance obligations for land sale contracts with an original expected duration of one year or less.

We recognize the majority of the revenue associated with our mortgage loan operations when the mortgage loans are sold and/or related servicing rights are sold to third party investors or retained and managed under a third party sub-service arrangement. The revenue recognized is reduced by the fair value of the related guarantee provided to the investor. The fair value of the guarantee is recognized in revenue when the Company is released from its obligation under the guarantee (note that guarantees are excluded from the scope of ASC 606). As of December 31, 2019 and 2018, we retained mortgage servicing rights of 3,613 and 2,282 loans, respectively, for a total value of \$9.6 million and \$6.5 million, respectively. We recognize financial services revenue associated with our title operations as homes are delivered, closing services are rendered, and title policies are issued, all of which generally occur simultaneously as each home is delivered. All of the underwriting risk associated with title insurance policies is transferred to third-party insurers.

The following table presents our revenues disaggregated by revenue source:

(Dollars in thousands)	Year Ended December 31,		
	2019	2018	2017 ^(a)
Housing	\$ 2,420,348	\$ 2,217,197	\$ 1,878,572
Land sales	24,619	16,889	33,706
Financial services ^(b)	55,323	52,196	49,693
Total revenue	\$ 2,500,290	\$ 2,286,282	\$ 1,961,971

(a) Prior period amounts have not been adjusted under the cumulative catch-up transition method as a result of the adoption of ASU 2014-09, *Revenue from Contracts with Customers*, on January 1, 2018.

(b) Revenues include hedging losses of \$12.1 million and hedging gains of \$3.6 million and \$0.7 million for the years ended December 31, 2019, 2018 and 2017, respectively. Hedging gains (losses) do not represent revenues recognized from contracts with customers.

Refer to [Note 15](#) for presentation of our revenues disaggregated by geography. As our homebuilding operations accounted for over 97% of our total revenues for the years ended December 31, 2019, 2018 and 2017, with most of those revenues generated from home purchase contracts with customers, we believe the disaggregation of revenues as disclosed above and in [Note 15](#) fairly depict how the nature, amount, timing and uncertainty of cash flows are affected by economic factors.

Land and Housing Cost of Sales. All associated homebuilding costs are charged to cost of sales in the period when the revenues from home deliveries are recognized. Homebuilding costs include: land and land development costs; home construction costs (including an estimate of the costs to complete construction); previously capitalized interest; real estate taxes; indirect costs; and estimated warranty costs. All other costs are expensed as incurred. Sales incentives, including pricing discounts and financing costs paid by the Company, are recorded as a reduction of revenue in the Company's Consolidated Statements of Income. Sales incentives in the form of options or upgrades are recorded in homebuilding costs.

Income Taxes. The Company records income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on future tax consequences attributable to (1) temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and (2) operating loss and tax credit carryforwards, if any. Deferred tax assets and liabilities are measured using enacted tax rates in effect in the years in which those temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period when the change is enacted.

In accordance with ASC 740-10, *Income Taxes* ("ASC 740"), we evaluate the realizability of our deferred tax assets, including the benefit from net operating losses ("NOLs") and tax credit carryforwards, if any, to determine if a valuation allowance is required based on whether it is more likely than not (a likelihood of more than 50%) that all or any portion of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is primarily dependent upon the generation of future taxable income. In determining the future tax consequences of events that have been recognized in the consolidated financial statements or tax

returns, judgment is required. This assessment gives appropriate consideration to all positive and negative evidence related to the realization of the deferred tax assets and considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the length of statutory carryforward periods, our experience with operating losses and our experience of utilizing tax credit carryforwards and tax planning alternatives. See [Note 14](#) to our Consolidated Financial Statements for more information regarding our deferred tax assets.

Earnings Per Share. The Company computes earnings per share in accordance with ASC 260, *Earnings per Share*, (“ASC 260”). Basic earnings per share is calculated by dividing income attributable to common shareholders by the weighted average number of common shares outstanding during each year. Diluted earnings per share gives effect to the potential dilution that could occur if securities or contracts to issue our common shares that are dilutive were exercised or converted into common shares or resulted in the issuance of common shares that then shared our earnings. In periods of net losses, no dilution is computed. See [Note 13](#) to our Consolidated Financial Statements for more information regarding our earnings per share calculation.

Recently Adopted Accounting Standards. In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases* (“ASU 2016-02”), which requires organizations that lease assets - referred to as “lessees” - to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under ASU 2016-02, a lessee will be required to recognize assets and liabilities for all lease agreements. Lessor accounting remains substantially similar to current GAAP. In addition, disclosures of leasing activities will be expanded to include qualitative and specific quantitative information. For publicly traded companies, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

Following the issuance of ASU 2016-02, the FASB issued ASU No. 2018-01, *Land Easement Practical Expedient for Transition to Topic 842* (“ASU 2018-01”), ASU No. 2018-10, *Codification Improvements to Topic 842, Leases* (“ASU 2018-10”), ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements* (“ASU 2018-11”), and ASU No. 2018-20, *Leases (Topic 842): Narrow-Scope Improvements* (“ASU 2018-20”). In March 2019, the FASB issued ASU No. 2019-01, *Leases (Topic 842): Codification Improvements* (“ASU 2019-01”) which clarifies how to apply certain aspects of the new lease standard as discussed in more detail below. These ASUs do not change the core principle of the guidance stated in ASU 2016-02, but are instead intended to clarify and improve the operability of certain topics addressed by ASU 2016-02 and provide practical expedients for certain aspects of the guidance to aid companies in transition. These additional ASUs have the same effective date and transition requirements as ASU 2016-02.

We adopted ASU 2016-02 and the subsequently issued ASUs identified above on January 1, 2019 using the additional modified retrospective transition method in accordance with ASU 2018-11, which includes a cumulative catch-up in retained earnings on the initial date of adoption (i.e., the initial date of adoption method). The adoption of the new lease standard did not have any impact on our retained earnings. At January 1, 2019, we recognized Operating Right-of-Use (“ROU”) Assets and Operating Lease Liabilities of \$20.9 million on our Consolidated Balance Sheets. As a result of adopting the standard, we added certain internal controls to our control framework and ensured that these controls were designed and operating as part of the implementation process. See [Note 9](#) to the Company’s Consolidated Financial Statements for the additional expanded disclosures required by the new standard.

In July 2019, the FASB issued ASU No. 2019-07, *Codification Updates to SEC Sections - Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization and Miscellaneous Updates (SEC Update)* (“ASU 2019-07”). ASU 2019-07 clarifies or improves the disclosure and presentation requirements of a variety of codification topics by aligning them with the SEC’s regulations, thereby eliminating redundancies and making the codification easier to apply. This ASU was effective upon issuance and did not have a significant impact on the Company’s Consolidated Financial Statements and disclosures.

Impact of New Accounting Standards. In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). ASU 2016-13 replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate credit losses. ASU 2016-13 is effective for our fiscal year beginning January 1, 2020. Subsequent to the issuance of ASU 2016-13, the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses* (“ASU 2018-19”) in November 2018, ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments* (“ASU 2019-04”), in April 2019, and ASU No. 2019-05, *Financial Instruments-Credit Losses (Topic 326) Targeted Transition Relief* (“ASU 2019-05”) in May 2019. These ASUs do not change the core principle of the guidance in ASU 2016-13. Instead these amendments are intended to clarify and improve operability of certain topics included within the credit losses standard. These ASUs will have the same effective date and transition requirements as ASU 2016-13. The adoption of this ASU will not have a material impact on the Company’s Consolidated Financial Statements and disclosures.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* (“ASU 2018-13”). ASU 2018-13 modifies the disclosure requirements for fair value measurements and removes the requirement to disclose (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, (2) the policy for timing of transfers between levels, and (3) the valuation processes for Level 3 fair value measurements. ASU 2018-13 requires disclosure of changes in unrealized gains and losses for the period included in other comprehensive income (loss) for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For all entities, ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The adoption of this ASU will not have a material impact on the Company’s Consolidated Financial Statements and disclosures.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (“ASU 2019-12”), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 is effective for the Company beginning January 1, 2021. The Company is currently evaluating the impact of the adoption of ASU 2019-12 on its Consolidated Financial Statements and disclosures but does not expect a material impact to its Consolidated Financial Statements and disclosures.

NOTE 2. Stock-Based and Deferred Compensation

We measure and recognize compensation expense associated with our grant of equity-based awards in accordance with ASC 718, *Compensation-Stock Compensation* (“ASC 718”), which generally requires that companies measure and recognize stock-based compensation expense in an amount equal to the fair value of share-based awards granted under compensation arrangements over the related vesting period. We have granted share-based awards to certain of our employees and directors in the form of stock options, director stock units and performance share units (“PSU’s”). Determining the fair value of share-based awards requires judgment to identify the appropriate valuation model and develop the assumptions.

Stock Incentive Plans

The Company maintains the M/I Homes, Inc. 2018 Long-Term Incentive Plan (the “2018 LTIP”), an equity compensation plan administered by the Compensation Committee of our Board of Directors. Under the 2018 LTIP, the Company is permitted to grant (1) nonqualified stock options to purchase common shares, (2) incentive stock options to purchase common shares, (3) stock appreciation rights, (4) restricted common shares, (5) other stock-based awards – awards that are valued in whole or in part by reference to, or otherwise based on, the fair market value of our common shares, and (6) cash-based awards to its officers, employees, non-employee directors and other eligible participants. Subject to certain adjustments, the 2018 LTIP authorizes awards to officers, employees, non-employee directors and other eligible participants for up to 2,250,000 common shares, of which 1,714,293 remain available for grant at December 31, 2019.

The 2018 LTIP replaced the M/I Homes, Inc. 2009 Long-Term Incentive Plan (the “2009 LTIP”), which was terminated immediately following our 2018 Annual Meeting of Shareholders. Awards outstanding under the 2009 LTIP remain in effect in accordance with their respective terms.

Stock Options

Stock options are granted at the market price of the Company’s common shares at the close of business on the date of grant. The grant date fair value for stock option awards is estimated using the Black-Scholes option pricing model. Options awarded generally vest 20% annually over five years and expire after ten years. We recognize stock-based compensation expense for our stock option awards over the requisite service period of the award. Under the 2018 LTIP and the 2009 LTIP, in the case of termination due to death, disability or retirement, all options will become immediately exercisable. Shares issued upon option exercise may consist of treasury shares, authorized but unissued common shares or common shares purchased by or on behalf of the Company in the open market.

Following is a summary of stock option activity for the year ended December 31, 2019, relating to the stock options awarded under the 2018 LTIP and the 2009 LTIP:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ^(a) (In thousands)
Options outstanding at December 31, 2018	2,212,690	\$ 22.82	6.58	\$ 3,123
Granted	423,500	27.99		
Exercised	(954,370)	20.60		
Forfeited	(58,100)	27.37		
Options outstanding at December 31, 2019	1,623,720	\$ 25.30	7.22	\$ 22,836
Options vested or expected to vest at December 31, 2019	1,571,685	\$ 25.25	7.19	\$ 22,198
Options exercisable at December 31, 2019	741,520	\$ 22.90	5.97	\$ 12,198

(a) Intrinsic value is defined as the amount by which the fair value of the underlying common shares exceeds the exercise price of the option.

The aggregate intrinsic value of options exercised during the years ended December 31, 2019, 2018 and 2017 was \$14.5 million, \$0.6 million and \$9.3 million, respectively.

The fair value of our five-year service-based stock options granted during the years ended December 31, 2019, 2018 and 2017 was established at the date of grant using the Black-Scholes pricing model, with the weighted average assumptions as follows:

	Year Ended December 31,		
	2019	2018	2017
Risk-free interest rate	2.51%	2.72%	1.96%
Expected volatility	28.81%	32.01%	39.49%
Expected term (in years)	5.9	5.7	5.9
Weighted average grant date fair value of options granted during the period	\$ 9.06	\$ 11.31	\$ 9.45

The risk-free interest rate is based upon the U.S. Treasury constant maturity rate at the date of the grant. Expected volatility is based on an average of (1) historical volatility of the Company's stock and (2) implied volatility from traded options on the Company's stock. The risk-free rate for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the stock option award is granted, with a maturity equal to the expected term of the stock option award granted. The Company uses historical data to estimate stock option exercises and forfeitures within its valuation model. The expected life of stock option awards granted is derived from historical exercise experience under the Company's share-based payment plans, and represents the period of time that stock option awards granted are expected to be outstanding.

Total stock-based compensation expense related to stock option awards that has been charged against income was \$3.6 million for the year ended December 31, 2019 relating to the 2018 LTIP and the 2009 LTIP, and \$3.9 million, and \$3.7 million for the years ended December 31, 2018 and 2017, respectively, relating to the 2018 LTIP, the 2009 LTIP, and the 1993 Stock Incentive Plan as Amended. As of December 31, 2019, there was a total of \$7.8 million of unrecognized compensation expense related to unvested stock option awards that will be recognized as stock-based compensation expense as the awards vest over a weighted average period of 2.1 years for the service awards.

Director Stock Units

The Company awarded its non-employee directors a total of 24,000 and 21,000 stock units under the 2018 LTIP during the years ended December 31, 2019 and 2018, respectively, and a total of 18,000 stock units under the 2009 LTIP during the year ended December 31, 2017. Each stock unit is the equivalent of one common share, vests immediately and will be converted into a common share upon termination of service as a director. The grant date fair value for the director stock units is based upon the closing price of our common shares on the date of grant. Stock-based compensation expense for our director stock units, which vest immediately, is fully recognized in the period of the award. The Company recognized the stock-based compensation expense related to the awards of \$0.7 million in both 2019 and 2018, and \$0.5 million in 2017.

On May 5, 2009, the Company's board of directors terminated the M/I Homes, Inc. 2006 Director Equity Incentive Plan (the "Director Equity Plan"). Awards outstanding under the Director Equity Plan remain in effect in accordance with their respective terms. At December 31, 2019, there were 8,059 stock units outstanding under the Director Equity Plan with a value of \$0.2 million.

Performance Share Unit Awards

On February 19, 2019, February 15, 2018 and February 8, 2017, the Company awarded its executive officers (in the aggregate) a target number of PSU's under the 2009 LTIP equal to 53,692, 46,444 and 57,110 PSU's, respectively. Each PSU represents a contingent right to receive one common share of the Company if vesting is satisfied at the end of a three-year performance period (the "Performance Period") based on the related performance conditions and markets conditions. The ultimate number of PSU's that will vest and be earned, if any, after the completion of the Performance Period, is based on (1) (a) the Company's cumulative annual pre-tax income from operations, excluding extraordinary items as defined in the underlying award agreements with the executive officers, over the Performance Period (weighted 80%) (the "Performance Condition"), and (b) the Company's relative total shareholder return over the Performance Period compared to the total shareholder return of a peer group of other publicly-traded homebuilders (weighted 20%) (the "Market Condition") and (2) the participant's continued employment through the end of the Performance Period, except in the case of termination due to death, disability or retirement or involuntary termination without cause by the Company. The number of PSU's that vest may increase by up to 50% from the target number based on levels of achievement of the above criteria as set forth in the applicable award agreements and decrease to zero if the Company fails to meet the minimum performance levels for both of the above criteria. If the Company achieves the minimum performance levels for both of the above criteria, 50% of the target number of PSU's will vest and be earned. Any portion of PSU's that does not vest at the end of the Performance Period will be forfeited. Additionally, the PSU's have no dividend or voting rights during the Performance Period.

The grant date fair value for PSU's with a market condition (as defined in ASC 718) is estimated using the Monte Carlo simulation methodology, and the grant date fair value for PSU's with a performance condition (as defined in ASC 718) is based upon the closing price of our common shares on the date of grant. The grant date fair value of the portion of the PSU's subject to the Performance Condition and the Market Condition component was \$27.62 and \$32.52, respectively, for the 2019 PSU's, \$31.93 and \$33.57, respectively, for the 2018 PSU's, and \$23.34 and \$19.69, respectively, for the 2017 PSU's. In accordance with ASC 718, for the portion of the PSU's subject to a Market Condition, stock-based compensation expense is derived using the Monte Carlo simulation methodology and is recognized ratably over the service period regardless of whether or not the attainment of the Market Condition is probable. Therefore, the Company recognized \$0.2 million in stock-based compensation expense during 2019 related to the Market Condition portion of the 2019, 2018 and 2017 PSU awards. There was a total of \$0.2 million of unrecognized stock-based compensation expense related to the Market Condition portion of the 2019 and 2018 PSU awards as of December 31, 2019. At December 31, 2019, the Market Condition for the 2017 PSU awards was met, and the Company recorded \$0.1 million of stock-based compensation expense. Based on these results and board approval, 11,101 PSU's vested during the first quarter of 2020 with respect to the portion of the 2017 PSU's subject to the Market Condition.

For the portion of the PSU's subject to a Performance Condition, we recognize stock-based compensation expense on a straight-line basis over the Performance Period based on the probable outcome of the related Performance Condition. If satisfaction of the performance condition is not probable, stock-based compensation expense recognition is deferred until probability is attained and a cumulative compensation expense adjustment is recorded and recognized ratably over the remaining service period. The Company reassesses the probability of the satisfaction of the Performance Condition on a quarterly basis, and stock-based compensation expense is adjusted based on the portion of the requisite service period that has passed. If actual results differ significantly from these estimates, stock-based compensation expense could be higher and have a material impact on our consolidated financial statements.

As of December 31, 2019, the Company had not recognized any stock-based compensation expense related to the Performance Condition portion of the 2019 PSU awards. If the Company achieves the minimum performance levels for the Performance Condition to be met for the 2019 PSU awards, the Company would record unrecognized stock-based compensation expense of \$0.6 million as of December 31, 2019, for which \$0.2 million would be immediately recognized as if attainment been probable at December 31, 2019. The Company recognized \$0.4 million of stock-based compensation expense related to the Performance Condition portion of the 2018 PSU awards during 2018 based on the probability of attaining the Performance Condition. The Company has \$0.2 million of unrecognized stock-based compensation expense related to the Performance Condition portion of the 2018 PSU awards at December 31, 2019. The Company recognized \$0.9 million of stock-based compensation expense related to the Performance Condition portion of the 2017 PSU awards as of December 31, 2019 based on the achievement of 121% of the target performance level. Based on these results and board approval, 55,080 PSU's vested during the first quarter of 2020 with respect to the portion of the 2017 PSU awards subject to the Performance Condition.

Deferred Compensation Plans

The purpose of the Company's Amended and Restated Executives' Deferred Compensation Plan (the "Executive Plan"), a non-qualified deferred compensation plan, is to provide an opportunity for certain eligible employees of the Company to defer a portion of their compensation and to invest in the Company's common shares. The purpose of the Company's Amended and Restated

Director Deferred Compensation Plan (the “Director Plan”) is to provide its directors with an opportunity to defer their director compensation and to invest in the Company’s common shares.

Compensation expense deferred into the Executive Plan and the Director Plan (together the “Plans”) totaled \$0.2 million for both the years ended December 31, 2019 and 2018, and \$0.4 million for the year ended December 31, 2017. The portion of cash compensation deferred by employees and directors under the Plans is invested in fully-vested equity units in the Plans. One equity unit is the equivalent of one common share. Equity units and the related dividends (if any) will be converted and generally distributed to the employee or director in the form of common shares at the earlier of his or her elected distribution date or termination of service as an employee or director of the Company. Distributions from the Plans totaled \$0.2 million during each of the years ended December 31, 2019, 2018 and 2017. As of December 31, 2019, there were a total of 63,958 equity units with a value of \$1.5 million outstanding under the Plans. The aggregate fair market value of these units at December 31, 2019, based on the closing price of the underlying common shares, was approximately \$2.5 million, and the associated deferred tax benefit the Company would recognize if the outstanding units were distributed was \$1.1 million as of December 31, 2019. Common shares are issued from treasury shares upon distribution of equity units from the Plans.

Profit Sharing and Retirement Plan

The Company has a profit-sharing and retirement plan that covers substantially all Company employees and permits participants to make contributions to the plan on a pre-tax basis in accordance with the provisions of Section 401(k) of the Internal Revenue Code of 1986, as amended. Company contributions to the plan are also made at the discretion of the Company’s board of directors based on the Company’s profitability and resulted in a \$2.9 million, \$2.3 million and \$1.8 million expense for the years ended December 31, 2019, 2018 and 2017, respectively.

NOTE 3. Fair Value Measurements

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

Assets Measured on a Recurring Basis

To meet financing needs of our home-buying customers, M/I Financial is party to interest rate lock commitments (“IRLCs”), which are extended to customers who have applied for a mortgage loan and meet certain defined credit and underwriting criteria. These IRLCs are considered derivative financial instruments. M/I Financial manages interest rate risk related to its IRLCs and mortgage loans held for sale through the use of forward sales of mortgage-backed securities (“FMBSs”), the use of whole loan delivery commitments, and the occasional purchase of options on FMBSs in accordance with Company policy. These FMBSs, options on FMBSs, and IRLCs covered by FMBSs are considered non-designated derivatives. These amounts are either recorded in Other Assets or Other Liabilities on the Consolidated Balance Sheets (depending on the respective balance for that year ended December 31).

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

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

The fair value of mortgage loans held for sale is estimated based primarily on published prices for mortgage-backed securities with similar characteristics. To calculate the effects of interest rate movements, the Company utilizes applicable published

mortgage-backed security prices, and multiplies the price movement between the rate lock date and the balance sheet date by the notional loan commitment amount. The Company sells loans on a servicing released or servicing retained basis, and receives servicing compensation. Thus, the value of the servicing rights included in the fair value measurement is based upon contractual terms with investors and depends on the loan type. The Company applies a fallout rate to IRLCs when measuring the fair value of rate lock commitments. Fallout is defined as locked loan commitments for which the Company does not close a mortgage loan and is based on management's judgment and company experience.

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

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

Some IRLCs are committed to a specific third party investor through the use of 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. FMBSs are used to protect uncommitted IRLC loans against the risk of changes in interest rates between the lock date and the funding date. FMBSs related to uncommitted IRLCs are classified and accounted for as non-designated derivative instruments and are recorded at fair value, with gains and losses recorded in current earnings.

Mortgage Loans Held for Sale. Mortgage loans held for sale consists primarily of single-family residential loans collateralized by the underlying property. Generally, all of the mortgage loans and related servicing rights are sold to third-party investors shortly after origination. During the 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 whole loan contract or by FMBSs.

The table below shows the notional amounts of our financial instruments at December 31, 2019 and 2018:

Description of Financial Instrument (in thousands)	December 31,	
	2019	2018
Whole loan contracts and related committed IRLCs	\$ 1,445	\$ 5,823
Uncommitted IRLCs	87,340	76,117
FMBSs related to uncommitted IRLCs	88,000	83,000
Whole loan contracts and related mortgage loans held for sale	6,125	14,285
FMBSs related to mortgage loans held for sale	144,000	150,000
Mortgage loans held for sale covered by FMBSs	144,411	149,980

The following table sets forth the amount of gain (loss) recognized, within our revenue in the Consolidated Statements of Income, on assets and liabilities measured on a recurring basis for the years ended December 31, 2019, 2018 and 2017:

Description (in thousands)	Year Ended December 31,		
	2019	2018	2017
Mortgage loans held for sale	\$ (2,261)	\$ 3,763	\$ 3,675
Forward sales of mortgage-backed securities	2,969	(3,482)	(53)
Interest rate lock commitments	(370)	783	21
Whole loan contracts	173	(231)	102
Total gain recognized	\$ 511	\$ 833	\$ 3,745

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

Description of Derivatives	Asset Derivatives December 31, 2019		Liability Derivatives December 31, 2019	
	Balance Sheet Location	Fair Value (in thousands)	Balance Sheet Location	Fair Value (in thousands)
Forward sales of mortgage-backed securities	Other assets	\$ —	Other liabilities	\$ 336
Interest rate lock commitments	Other assets	654	Other liabilities	—
Whole loan contracts	Other assets	—	Other liabilities	16
Total fair value measurements		\$ 654		\$ 352

Description of Derivatives	Asset Derivatives December 31, 2018		Liability Derivatives December 31, 2018	
	Balance Sheet Location	Fair Value (in thousands)	Balance Sheet Location	Fair Value (in thousands)
Forward sales of mortgage-backed securities	Other assets	\$ —	Other liabilities	\$ 3,305
Interest rate lock commitments	Other assets	989	Other liabilities	—
Whole loan contracts	Other assets	—	Other liabilities	154
Total fair value measurements		\$ 989		\$ 3,459

Assets Measured on a Non-Recurring Basis

The Company assesses inventory for recoverability on a quarterly basis if events or changes in local or national economic conditions indicate that the carrying amount of an asset may not be recoverable. Our determination of fair value is based on projections and estimates, which are Level 3 measurement inputs. For further explanation of the Company's policy regarding our assessment of recoverability for assets measured on a non-recurring basis, see [Note 1](#) to our Consolidated Financial Statements. The table below shows the level and measurement of assets measured on a non-recurring basis for the years ended December 31, 2019, 2018 and 2017:

Description (in thousands)	Fair Value Hierarchy	Year Ended December 31,		
		2019	2018 ⁽²⁾	2017 ⁽²⁾
Adjusted basis of inventory ⁽¹⁾	Level 3	\$ 12,321	\$ 14,515	\$ 3,823
Total losses		5,002	5,809	7,681
Initial basis of inventory ⁽³⁾		\$ 17,323	\$ 20,324	\$ 11,504

- (1) The fair values in the table above represent only assets whose carrying values were adjusted in the respective period.
- (2) The carrying values for these assets may have subsequently increased or decreased from the fair value reported due to activities that have occurred since the measurement date.
- (3) This amount is inclusive of our investments in joint venture arrangements. There were no losses on our investments in joint venture arrangements for 2019, 2018 and 2017.

Asset Held For Sale. The Company measures assets held for sale at fair value on a nonrecurring basis and records impairment charges when the assets are deemed to be impaired. Assets held for sale are reported at the lower of cost or fair value. Costs to sell are accrued separately. As of September 30, 2018, our home office building in Columbus, Ohio met the held for sale classification criteria as it was being actively marketed. The carrying value of the building as of December 31, 2018 was \$5.6 million. The Company estimated the fair value of the building using the market values for similar properties, and the building was considered a Level 2 asset as defined in ASC 820, "Fair Value Measurements." On December 31, 2019, the Company sold the home office building for a gain. During the years ended December 31, 2019 and 2018, the Company did not record any impairment charges on its asset held for sale.

Financial Instruments

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

The following table presents the carrying amounts and fair values of the Company's financial instruments at December 31, 2019 and 2018. The objective of the fair value measurement is to estimate the price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under current market conditions.

(In thousands)	Fair Value Hierarchy	December 31, 2019		December 31, 2018	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash, cash equivalents and restricted cash	Level 1	\$ 6,083	\$ 6,083	\$ 21,529	\$ 21,529
Mortgage loans held for sale	Level 2	155,244	155,244	169,651	169,651
Interest rate lock commitments	Level 2	654	654	989	989
Liabilities:					
Notes payable - homebuilding operations	Level 2	66,000	66,000	117,400	117,400
Notes payable - financial services operations	Level 2	136,904	136,904	153,168	153,168
Notes payable - other	Level 2	5,828	5,286	5,938	5,112
Senior notes due 2021 ^(a)	Level 2	300,000	299,250	300,000	298,500
Senior notes due 2025 ^(a)	Level 2	250,000	261,563	250,000	228,750
Whole loan contracts for committed IRLCs and mortgage loans held for sale	Level 2	16	16	154	154
Forward sales of mortgage-backed securities	Level 2	336	336	3,305	3,305

(a) Our senior notes are stated at the principal amount outstanding which does not include the impact of premiums, discounts, and debt issuance costs that are amortized to interest cost over the respective terms of the notes.

The following methods and assumptions were used by the Company in estimating its fair value disclosures of financial instruments at December 31, 2019 and 2018:

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

Mortgage Loans Held for Sale, Forward Sales of Mortgage-Backed Securities, Interest Rate Lock Commitments, Whole loan Contracts for Committed IRLCs and Mortgage Loans Held for Sale, Senior Notes due 2021 and Senior Notes due 2025. The fair value of these financial instruments was determined based upon market quotes at December 31, 2019 and 2018. The market quotes used were quoted prices for similar assets or liabilities along with inputs taken from observable market data by correlation. The inputs were adjusted to account for the condition of the asset or liability.

Notes Payable - Homebuilding Operations. The interest rate available to the Company during 2019 under the Company's \$500 million unsecured revolving credit facility, dated July 18, 2013, as amended (the "Credit Facility"), fluctuated daily with the one-month LIBOR rate plus a margin of 250 basis points, and thus the carrying value is a reasonable estimate of fair value. See [Note 11](#) to our Consolidated Financial Statements for additional information regarding the Credit Facility.

Notes Payable - Financial Services Operations. M/I Financial is a party to two credit agreements: (1) a \$125 million secured mortgage warehousing agreement, dated June 24, 2016, as amended (the "MIF Mortgage Warehousing Agreement"), and (2) a \$65 million mortgage repurchase agreement, dated October 30, 2017, as amended (the "MIF Mortgage Repurchase Facility"). For each of these credit facilities, the interest rate is based on a variable rate index, and thus their carrying value is a reasonable estimate of fair value. The interest rate available to M/I Financial during 2019 fluctuated with LIBOR. See [Note 11](#) to our Consolidated Financial Statements for additional information regarding the MIF Mortgage Warehousing Agreement and the MIF Mortgage Repurchase Facility.

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

NOTE 4. Inventory and Capitalized Interest

Inventory

A summary of the Company's inventory as of December 31, 2019 and 2018 is as follows:

(In thousands)	December 31,	
	2019	2018
Single-family lots, land and land development costs	\$ 858,065	\$ 778,943
Land held for sale	5,670	12,633
Homes under construction	756,998	730,390
Model homes and furnishings - at cost (less accumulated depreciation: December 31, 2019 - \$12,723; December 31, 2018 - \$13,441)	98,777	87,132
Community development district infrastructure	13,531	12,392
Land purchase deposits	28,532	33,662
Consolidated inventory not owned	7,934	19,308
Total inventory	\$ 1,769,507	\$ 1,674,460

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

Homes under construction include homes that are in various stages of construction. As of December 31, 2019 and 2018, we had 1,459 homes (with a carrying value of \$304.0 million) and 1,443 homes (with a carrying value of \$311.0 million), respectively, included in homes under construction that were not subject to a sales contract.

Model homes and furnishings include homes that are under construction or have been completed and are being used as sales models. The amount also includes the net book value of furnishings included in our model homes. Depreciation on model home furnishings is recorded using an accelerated method over the estimated useful life of the assets, which is typically three years.

The Company assesses inventory for recoverability on a quarterly basis. See Notes [1](#) and [3](#) to our Consolidated Financial Statements for additional details relating to our procedures for evaluating our inventories for impairment.

Land purchase deposits include both refundable and non-refundable amounts paid to third party sellers relating to the purchase of land. On an ongoing basis, the Company evaluates the land option agreements relating to the land purchase deposits. In the period during which the Company makes the decision not to proceed with the purchase of land under an agreement, the Company expenses any deposits and accumulated pre-acquisition costs relating to such agreement.

Capitalized Interest

The Company capitalizes interest during land development and home construction. Capitalized interest is charged to land and housing costs and expensed as the related inventory is delivered to a third party. The summary of capitalized interest for the years ended December 31, 2019, 2018 and 2017 is as follows:

(In thousands)	Year Ended December 31,		
	2019	2018	2017
Capitalized interest, beginning of period	\$ 20,765	\$ 17,169	\$ 16,012
Interest capitalized to inventory	30,253	29,053	21,484
Capitalized interest charged to cost of sales	(29,411)	(25,457)	(20,327)
Capitalized interest, end of year	\$ 21,607	\$ 20,765	\$ 17,169
Interest incurred	\$ 51,628	\$ 49,537	\$ 40,358

NOTE 5. Transactions with Related Parties

From time to time, in the ordinary course of business, we have transacted with related or affiliated companies and with certain of our officers and directors. We believe that the terms and fees negotiated for all transactions listed below are no less favorable than those that could be negotiated in arm's length transactions.

In October 2019, the Company entered into a land purchase agreement with Schottenstein Real Estate Group, LLC, a company owned by the brother of our Chairman and CEO, Robert Schottenstein, for \$14.2 million to acquire 165.7 acres of land. This transaction was approved by the Company's Board of Directors.

The Company made a contribution of \$0.8 million in 2019 to the M/I Homes Foundation, a charitable organization having certain officers and directors of the Company on its Board of Trustees.

The Company had a receivable of \$0.2 million at both December 31, 2019 and 2018 due from an executive officer, relating to amounts owed to the Company for split-dollar life insurance policy premiums. The Company will collect the receivable either directly from the executive officer, if employment terminates other than by death, or from the executive officer's beneficiary, if employment terminates due to death of the executive officer.

NOTE 6. Investment in Joint Venture Arrangements

In order to minimize our investment and risk of land exposure in a single location, we have periodically partnered with other land developers or homebuilders to share in the land investment and development of a property through joint ownership and development agreements, joint ventures, and other similar arrangements. As of December 31, 2019 and 2018, our investment in such joint venture arrangements totaled \$37.9 million and \$35.9 million, respectively, and was reported as Investment in Joint Venture Arrangements on our Consolidated Balance Sheets. The increase from prior year was driven primarily by our cash contributions to our joint venture arrangements during 2019 of \$30.2 million, offset, in part, by our lot distributions from our joint venture arrangements during 2019 of \$27.7 million.

The majority of our investment in joint venture arrangements for both 2019 and 2018 consisted of joint ownership and development agreements for which a special purpose entity was not established ("JODAs"). In these agreements, the property is owned jointly with partners which are typically other builders, and land development activities are funded jointly until the developed lots are subdivided for separate ownership by the partners in accordance with the agreement and the approved site plan. As of December 31, 2019 and 2018, the Company had \$35.5 million and \$33.3 million, respectively, invested in JODAs.

The remainder of our investment in joint venture arrangements was comprised of joint venture arrangements where a special purpose entity was established to own and develop the property. For these joint venture arrangements, we generally enter into limited liability company or similar arrangements ("LLCs") with the other partners. These entities typically engage in land development activities for the purpose of distributing or selling developed lots to the Company and its partners in the LLC. As of December 31, 2019 and 2018, the Company had \$2.4 million and \$2.6 million, respectively, of equity invested in LLCs. The Company's ownership in these LLCs as of December 31, 2019 and 2018 ranged from 25% to 74% and 25% to 97%, respectively.

We use the equity method of accounting for investments in LLCs and other joint venture arrangements over which we exercise significant influence but do not have a controlling interest. Under the equity method, our share of the LLCs' earnings or loss, if any, is included in our Consolidated Statements of Income. The Company's equity in the income relating to earnings from its LLCs was \$0.3 million for each of the years ended December 31, 2019 and 2018, and \$0.5 million for the year ended December 31, 2017. Our share of the profit relating to lots we purchase from our LLCs is deferred until homes are delivered by us and title passes to a homebuyer.

We believe that the Company's maximum exposure related to its investment in these joint venture arrangements as of December 31, 2019 is the amount invested of \$37.9 million, which is reported as Investment in Joint Venture Arrangements on our Consolidated Balance Sheets, although we expect to invest further amounts in these joint venture arrangements as development of the properties progresses.

The Company assesses its investments in joint venture arrangements for recoverability on a quarterly basis in accordance with ASC 323, *Investments - Equity Method and Joint Ventures* ("ASC 323") as described below. If the fair value of the investment is less than the investment's carrying value, and the Company determines that the decline in value is other than temporary, the Company will write down the value of the investment to its estimated fair value. The determination of whether an investment's fair value is less than the carrying value requires management to make certain assumptions regarding the amount and timing of future contributions to the joint venture arrangements, the timing of distribution of lots to the Company from the joint venture arrangements, the projected fair value of the lots at the time of distribution to the Company, and the estimated proceeds from, and timing of, the sale of land or lots to third parties. In determining the fair value of investments in joint venture arrangements, the Company evaluates the projected cash flows associated with each joint venture arrangement.

As of both December 31, 2019 and 2018, the Company used a discount rate of 16% in determining the fair value of investments in joint venture arrangements. In addition to the assumptions management must make to determine if the investment's fair value is less than the carrying value, management must also use judgment in determining whether the impairment is other than temporary. The factors management considers are: (1) the length of time and the extent to which the market value has been less than cost; (2) the financial condition and near-term prospects of the joint venture arrangement; and (3) the intent and ability of the Company to retain its investment in the joint venture arrangements for a period of time sufficient to allow for any anticipated recovery in market

value. Due to uncertainties in the estimation process and the significant volatility in demand for new housing, actual results could differ significantly from such estimates.

Variable Interest Entities

With respect to our investments in LLCs, we are required, under ASC 810-10, *Consolidation* (“ASC 810”), to evaluate whether or not such entities should be consolidated into our Consolidated Financial Statements. We initially perform these evaluations when each new entity is created and upon any events that require reconsideration of the entity. In order to determine if we should consolidate an LLC, we determine (1) if the LLC is a variable interest entity (“VIE”) and (2) if we are the primary beneficiary of the entity. To determine whether we are the primary beneficiary of an entity, we consider whether we have the ability to control the activities of the VIE that most significantly impact its economic performance. This analysis considers, among other things, whether we have: the ability to determine the budget and scope of land development work, if any; the ability to control financing decisions for the VIE; the ability to acquire additional land into the VIE or dispose of land in the VIE not under contract with M/I Homes; and the ability to change or amend the existing option contract with the VIE. If we determine that we are not able to control such activities, we are not considered the primary beneficiary of the VIE. As of December 31, 2019 and 2018, we have determined that no LLC in which we have an interest met the requirements of a VIE.

NOTE 7. Guarantees and Indemnifications

Guarantee and indemnity liabilities are established by charging the applicable income statement or balance sheet line, depending on the nature of the guarantee or indemnity, and crediting a liability. In the ordinary course of business, M/I Financial, a 100%-owned subsidiary of M/I Homes, Inc., enters into agreements that provide a limited-life guarantee on loans sold to certain third-party purchasers of its mortgage loans that M/I Financial will repurchase a loan if certain conditions occur, primarily if the mortgagor does not meet the terms of the loan within the first six months after the sale of the loan. Loans totaling approximately \$48.1 million and \$63.6 million were covered under these guarantees as of December 31, 2019 and 2018, respectively. The decrease in loans covered by these guarantees from December 31, 2018 is a result of a change in the mix of investors and their related purchase terms. A portion of the revenue paid to M/I Financial for providing the guarantees on these loans was deferred at December 31, 2019, and will be recognized in income as M/I Financial is released from its obligation under the guarantees. The risk associated with the guarantees above is offset by the value of the underlying assets. M/I Financial estimates its actual liability related to the guarantee and any indemnities subsequently provided to the purchaser of the loans in lieu of loan repurchase based on historical loss experience. Actual future costs associated with loans guaranteed or indemnified could differ materially from our current estimated amounts.

M/I Financial has received inquiries concerning underwriting matters from purchasers of its loans regarding certain loans totaling approximately \$0.6 million at both December 31, 2019 and 2018.

M/I Financial has also guaranteed the collectability of certain loans to third party insurers (U.S. Department of Housing and Urban Development and U.S. Veterans Administration) of those loans for periods ranging from five to thirty years. At each of December 31, 2019 and 2018, the total of all loans indemnified to third party insurers relating to the above agreements was \$1.0 million. The maximum potential amount of future payments is equal to the outstanding loan value less the value of the underlying asset plus administrative costs incurred related to foreclosure on the loans, should this event occur.

The Company recorded a liability relating to the guarantees described above totaling \$0.5 million and \$0.6 million at December 31, 2019 and 2018, respectively, which is management’s best estimate of the Company’s liability with respect to such guarantees.

The Company has also provided certain other guarantees and indemnities in connection with the purchase and development of land, including environmental indemnities, and guarantees of the completion of land development. The Company estimates these liabilities based on the estimated cost of insurance coverage or estimated cost of acquiring a bond in the amount of the exposure. Actual future costs associated with these guarantees and indemnities could differ materially from our current estimated amounts. At both December 31, 2019 and 2018, guarantees and indemnities of \$0.7 million are included in Other Liabilities on the Consolidated Balance Sheets.

NOTE 8. Commitments and Contingencies

Warranty

Our warranty reserves are included in Other Liabilities in the Company's Consolidated Balance Sheets, as further explained in [Note 1](#) to our Consolidated Financial Statements. A summary of warranty activity for the years ended December 31, 2019, 2018 and 2017 is as follows:

(In thousands)	Year Ended December 31,		
	2019	2018	2017
Warranty reserves, beginning of period	\$ 26,459	\$ 26,133	\$ 27,732
Warranty expense on homes delivered during the period	14,685	13,456	11,677
Changes in estimates for pre-existing warranties	2,165	4,746	2,614
Charges related to stucco-related claims	—	— ^(a)	8,500
Settlements made during the period	(16,889)	(17,876)	(24,390)
Warranty reserves, end of period	\$ 26,420	\$ 26,459	\$ 26,133

(a) This represents charges of \$1.0 million for additional stucco-related repair costs, net of \$1.0 million of recoveries for past stucco-related claims during 2018.

We have received claims related to stucco installation from homeowners in certain of our communities in our Tampa and Orlando, Florida markets and have been named as a defendant in legal proceedings initiated by certain of such homeowners. These claims primarily relate to homes built prior to 2014 which have second story elevations with frame construction.

During 2015 through 2018, we recorded an aggregate total of \$28.4 million of warranty charges for stucco-related repair costs, net of recoveries, for (1) homes in our Florida communities that we had identified as needing repair but had not yet completed the repair and (2) estimated repair costs for homes in our Florida communities that we had not yet identified as needing repair but that may require repair in the future. Stucco-related recoveries are reflected in our financial statements in the period the reimbursement is received.

During 2019, our on-going review of stucco-related data described below did not result in any additional stucco-related charges. During 2019, we received a total of \$1.1 million of recoveries that were recorded directly to income as they related to past stucco-related claims and we had no current charge. The remaining reserve for both known repair costs and an estimate of future costs of stucco-related repairs at December 31, 2019 included within our warranty reserve was \$4.5 million. We believe that this amount is sufficient to cover both known and estimated future repair costs as of December 31, 2019. Our remaining stucco-related reserve is gross of any recoveries.

Our review of the stucco-related issues in our Florida communities is ongoing. Our estimate of future costs of stucco-related repairs is based on our judgment, various assumptions and internal data. Due to the degree of judgment and the potential for variability in our underlying assumptions and data, as we obtain additional information, we may revise our estimate, including to reflect additional estimated future stucco-related repairs costs, which revision could be material.

We continue to investigate the extent to which we may be able to further recover a portion of our stucco repair and claims handling costs from other sources, including our direct insurers, the subcontractors involved with the construction of the homes and their insurers. As of December 31, 2019, we are unable to estimate any additional amount that we believe is probable of recovery from these sources and, as noted above, we have not recorded a receivable for recoveries nor included an estimated amount of recoveries in determining our stucco-related warranty reserve.

Performance Bonds and Letters of Credit

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. At December 31, 2019, the Company had outstanding approximately \$235.4 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 November 2027. Included in this total are: (1) \$159.1 million of performance and maintenance bonds and \$56.5 million of performance letters of credit that serve as completion bonds for land development work in progress (letters of credit represent potential commitments and generally expire within one or two years); (2) \$12.7 million of financial letters of credit, of which \$12.2 million represent deposits on land and lot purchase agreements; and (3) \$7.1 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.

Land Option Contracts and Other Similar Contracts

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, using an analysis similar to that described above. 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 in our Consolidated Inventory not Owned in our Consolidated Balance Sheets. At both December 31, 2019 and 2018, we have concluded that we were not the primary beneficiary of any VIEs from which we are purchasing land under option or purchase agreements.

In addition, we evaluate our land option or purchase agreements to determine for each contract if (1) a portion or all of the purchase price is a specific performance requirement, or (2) the amount of deposits and prepaid acquisition and development costs exceed certain thresholds relative to the remaining purchase price of the lots. If either is the case, then the remaining purchase price of the lots (or the specific performance amount, if applicable) is recorded as an asset and liability in Consolidated Inventory Not Owned (as further described below) on our Consolidated Balance Sheets.

Other than as described below in “Consolidated Inventory Not Owned,” the Company currently believes that its maximum exposure as of December 31, 2019 related to our land option agreements is equal to the amount of the Company’s outstanding deposits and prepaid acquisition costs, which totaled \$50.0 million, including cash deposits of \$28.5 million, prepaid acquisition costs of \$5.7 million, letters of credit of \$12.2 million and \$3.6 million of other non-cash deposits.

At December 31, 2019, the Company also had options and contingent purchase agreements to acquire land and developed lots with an aggregate purchase price of approximately \$685.0 million. Purchase of properties under these agreements is contingent upon satisfaction of certain requirements by the Company and the sellers.

Consolidated Inventory Not Owned and Related Obligation

At December 31, 2019 and December 31, 2018, Consolidated Inventory Not Owned was \$7.9 million and \$19.3 million, respectively. At December 31, 2019 and 2018, the corresponding liability of \$7.9 million and \$19.3 million, respectively, has been classified as Obligation for Consolidated Inventory Not Owned on the Consolidated Balance Sheets. The decrease in this balance from December 31, 2018 is related primarily to a decrease in the number of land purchase agreements that had deposits and prepaid acquisition and development costs that exceeded certain thresholds resulting in the remaining purchase price of the lots to be recorded in inventory not owned, partially offset by an increase in the aggregate purchase amount of land contracts with specific performance requirements.

Legal Matters

In addition to the legal proceedings related to stucco, the Company and certain of its subsidiaries have been named as defendants in certain other legal proceedings which are incidental to our business. While management currently believes that the ultimate resolution of these other legal proceedings, individually and in the aggregate, will not have a material effect on the Company's financial position, results of operations and cash flows, such legal proceedings are subject to inherent uncertainties. The Company has recorded a liability to provide for the anticipated costs, including legal defense costs, associated with the resolution of these other legal proceedings. However, the possibility exists that the costs to resolve these legal proceedings could differ from the recorded estimates and, therefore, have a material effect on the Company's net income for the periods in which they are resolved. At December 31, 2019 and 2018, we had \$0.7 million and \$0.4 million reserved for legal expenses, respectively.

NOTE 9. Operating Leases

On January 1, 2019, the Company adopted ASC 842, *Leases* ("ASC 842"), using the initial date of adoption method, whereby the adoption does not impact any periods prior to 2019. The Company recorded an operating ROU asset and an operating lease liability of \$20.9 million on its Consolidated Balance Sheets upon adoption. The Company elected to adopt the package of practical expedients and, accordingly, did not reassess any previously expired or existing arrangements and related classification under ASC 840, *Leases* ("ASC 840").

The Company leases certain office space and model homes under operating leases with remaining terms of one to six years. The Company sells model homes to investors with the express purpose of leasing the homes back as sales models for a specified period of time. Under ASC 842, the Company records the sale of the model home and the profit on the sale at the time of the home delivery.

The Company determines if an arrangement is a lease at inception when the arrangement transfers the right to control the use of an identified asset to the Company. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make payments arising from the lease agreement. The Company has operating leases but does not have any material financing leases.

Operating lease ROU assets and operating lease liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term. The lease term may include an option to extend or terminate a lease when it is reasonably certain that the option will be exercised. The exercise of these lease renewal options is generally at our discretion. The operating lease ROU assets include any lease payments made in advance and exclude any lease incentives. Lease payments include both lease and non-lease components as a single lease component. Lease expense is recognized on a straight-line basis over the lease term. The expense recognition pattern for our leases remained substantially unchanged as a result of the adoption of ASC 842. Variable lease payments consist of non-lease services related to the lease. Variable lease payments are excluded from the ROU assets and lease liabilities and are expensed as incurred. Short-term leases include leases with terms of less than one year without renewal options that are reasonably certain to be exercised and are recognized on a straight-line basis over the lease term. Due to our election of the practical expedient, leases with an initial term of twelve months or less are not recorded on the balance sheet. As the rate implicit in our leases is not readily determinable, the Company uses its estimated incremental borrowing rate at the commencement date in determining the present value of the lease payments. We give consideration to our recent debt issuances as well as to the current rate available under our Credit Facility when calculating our incremental borrowing rate. Our lease agreements do not contain any residual value guarantees or material restrictive covenants.

As of December 31, 2019, the Company has additional operating leases, which have not yet commenced, of approximately \$31 million. This balance relates primarily to a ten-year renewable lease for our new corporate headquarters expected to commence in 2020.

During the twelve months ended December 31, 2019, the Company reduced both its operating ROU asset and operating lease liability by \$2.5 million as a result of \$5.2 million of additional ROU asset amortization and periodic lease expense (which is recorded within its Consolidated Statement of Cash Flows in the change in Other Assets and Other Liabilities), offset partially by \$2.7 million attributable to additional leases and modifications to existing leases year to date. As of December 31, 2019, the Company's ROU asset and operating lease liability had a balance of \$18.4 million on its Consolidated Balance Sheets. The weighted-average remaining lease term was 4.0 years and the weighted-average discount rate was 5.0%.

For the twelve months ended December 31, 2019, the Company had the following operating lease expense components:

(Dollars in thousands)		
Operating lease expense	\$	6,188
Variable lease expense		1,629
Short-term lease expense		1,725
Total lease expense	\$	9,542

The following table presents a maturity analysis of our annual undiscounted cash flows reconciled to the carrying value of our operating lease liabilities as of December 31, 2019:

(Dollars in thousands)		
2020	\$	5,479
2021		5,159
2022		4,345
2023		3,264
2024		1,741
Thereafter		388
Total lease payments		20,376
Less: Imputed interest		(1,961)
Total operating lease liability	\$	18,415

At December 31, 2018, under ASC 840, the future minimum rental commitments totaled \$22.5 million under non-cancelable operating leases with initial terms in excess of one year. The Company's total rental expense was \$8.2 million, \$7.1 million, and \$6.3 million for 2018, 2017 and 2016, respectively.

NOTE 10. Community Development District Infrastructure and Related Obligations

A Community Development District and/or Community Development Authority ("CDD") is a unit of local government created under various state and/or local statutes to encourage planned community development and to allow for the construction and maintenance of long-term infrastructure through alternative financing sources, including the tax-exempt markets. A CDD is generally created through the approval of the local city or county in which the CDD is located and is controlled by a Board of Supervisors representing the landowners within the CDD. CDDs may utilize bond financing to fund construction or acquisition of certain on-site and off-site infrastructure improvements near or within these communities. CDDs are also granted the power to levy special assessments to impose ad valorem taxes, rates, fees and other charges for the use of the CDD project. An allocated share of the principal and interest on the bonds issued by the CDD is assigned to and constitutes a lien on each parcel within the community evidenced by an assessment (the "Assessment"). The owner of each such parcel is responsible for the payment of the Assessment on that parcel. If the owner of the parcel fails to pay the Assessment, the CDD may foreclose on the lien pursuant to powers conferred to the CDD under applicable state laws and/or foreclosure procedures. In connection with the development of certain of the Company's communities, CDDs have been established and bonds have been issued to finance a portion of the related infrastructure. Following are details relating to such CDD bond obligations issued and outstanding as of December 31, 2019:

Issue Date	Maturity Date	Interest Rate	Principal Amount as of December 31, 2019 (in thousands)	Principal Amount as of December 31, 2018 (in thousands)
12/23/2016	5/1/2047	6.20%	\$ 6,735	\$ 6,735
12/22/2017	5/1/2048	5.13%	9,815	9,815
9/24/2018	5/1/2049	5.09%	5,205	5,205
7/18/2019	5/1/2050	4.10%	4,705	—
Total CDD bond obligations issued and outstanding			\$ 26,460	\$ 21,755

The Company records a liability for the estimated developer obligations that are probable and estimable and user fees that are required to be paid or transferred at the time the parcel or unit is sold to an end user. The Company reduces this liability by the corresponding Assessment assumed by property purchasers and the amounts paid by the Company at the time of closing and the transfer of the property. The Company recorded a \$13.5 million and \$12.4 million liability related to these CDD bond obligations as of December 31, 2019 and December 31, 2018, respectively, along with the related inventory infrastructure.

NOTE 11. Debt

Notes Payable - Homebuilding

The Credit Facility provides an aggregate commitment amount of \$500 million, including a \$125 million sub-facility for letters of credit. The Credit Facility expires on July 18, 2021. Interest on amounts borrowed under the Credit Facility is payable at a rate which is adjusted daily and is equal to the sum of the one-month LIBOR rate plus a margin of 250 basis points. The margin is subject to adjustment in subsequent quarterly periods based on the Company's leverage ratio.

The available amount under the Credit Facility is computed in accordance with a borrowing base, which is calculated by applying various advance rates for different categories of inventory, and totaled \$666.6 million of availability for additional senior debt at December 31, 2019. As a result, the full \$500 million commitment amount of the Credit Facility was available, less any borrowings and letters of credit outstanding. At December 31, 2019, there were \$66.0 million borrowings outstanding and \$69.1 million of letters of credit outstanding, leaving net remaining borrowing availability of \$364.9 million.

The Company's obligations under the Credit Facility are guaranteed by all of the Company's subsidiaries, with the exception of subsidiaries that are primarily engaged in the business of mortgage financing, title insurance or similar financial businesses relating to the homebuilding and home sales business, certain subsidiaries that are not 100%-owned by the Company or another subsidiary, and other subsidiaries designated by the Company as Unrestricted Subsidiaries (as defined in [Note 16](#) to our Consolidated Financial Statements), subject to limitations on the aggregate amount invested in such Unrestricted Subsidiaries in accordance with the terms of the Credit Facility and the indentures for the Company's \$250.0 million aggregate principal amount of 5.625% Senior Notes due 2025 (the "2025 Senior Notes") and the Company's \$300.0 million aggregate principal amount of 6.75% Senior Notes due 2021 (the "2021 Senior Notes"). The guarantors for the Credit Facility (the "Guarantor Subsidiaries") are the same subsidiaries that guarantee the 2025 Senior Notes and the 2021 Senior Notes.

The Company's obligations under the Credit Facility are general, unsecured senior obligations of the Company and the Guarantor Subsidiaries and rank equally in right of payment with all our and the Guarantor Subsidiaries' existing and future unsecured senior indebtedness. Our obligations under the Credit Facility are effectively subordinated to our and the Guarantor Subsidiaries' existing and future secured indebtedness with respect to any assets comprising security or collateral for such indebtedness.

The Credit Facility contains various representations, warranties and covenants which require, among other things, that the Company maintain (1) a minimum level of Consolidated Tangible Net Worth (\$586.2 million at December 31, 2019 and 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 amount of available liquidity. 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. At December 31, 2019, the Company was in compliance with all financial covenants of the Credit Facility.

Notes Payable - Financial Services

The MIF Mortgage Warehousing Agreement is used to finance eligible residential mortgage loans originated by M/I Financial. The MIF Mortgage Warehousing Agreement provides for a maximum borrowing availability of \$125 million which may be increased to \$160 million from September 25, 2019 to October 15, 2019 and from November 15, 2019 to February 4, 2020 (periods of expected increases in the volume of mortgage originations). The MIF Mortgage Warehousing Agreement expires on June 19, 2020. Interest on amounts borrowed under the MIF Mortgage Warehousing Agreement is payable at a per annum rate equal to the floating LIBOR rate plus a spread of 200 basis points. The MIF Mortgage Warehousing Agreement also contains certain financial covenants. At December 31, 2019, M/I Financial was in compliance with all financial covenants of the MIF Mortgage Warehousing Agreement.

The MIF Mortgage Repurchase Facility is used to finance eligible residential mortgage loans originated by M/I Financial. The MIF Mortgage Repurchase Facility provides for a mortgage repurchase facility with a maximum borrowing availability of \$65 million. The MIF Mortgage Repurchase Facility expires on October 26, 2020. 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 175 or 200 basis points depending on the loan type. The MIF Mortgage Repurchase Facility also contains certain financial covenants. At December 31, 2019, M/I Financial was in compliance with all financial covenants of the MIF Mortgage Repurchase Facility.

At each of December 31, 2019 and 2018, M/I Financial's total combined maximum borrowing availability under the two credit facilities was \$225.0 million. At December 31, 2019 and December 31, 2018, M/I Financial had \$136.9 million and \$153.2 million outstanding on a combined basis under its credit facilities, respectively.

Senior Notes

As of both December 31, 2019 and 2018, we had \$250.0 million of 2025 Senior Notes outstanding. The 2025 Senior Notes bear interest at a rate of 5.625% per year, payable semiannually in arrears on February 1 and August 1 of each year, and mature on August 1, 2025. We may redeem all or any portion of the 2025 Senior Notes on or after August 1, 2020 at a stated redemption price, together with accrued and unpaid interest thereon. The redemption price will initially be 104.219% of the principal amount outstanding, but will decline to 102.813% of the principal amount outstanding if redeemed during the 12-month period beginning on August 1, 2021, will further decline to 101.406% of the principal amount outstanding if redeemed during the 12-month period beginning on August 1, 2022 and will further decline to 100.000% of the principal amount outstanding if redeemed on or after August 1, 2023, but prior to maturity.

As of both December 31, 2019 and 2018, we had \$300.0 million of our 2021 Senior Notes outstanding. The 2021 Senior Notes bear interest at a rate of 6.75% per year, payable semiannually in arrears on January 15 and July 15 of each year, and mature on January 15, 2021. As of January 15, 2020, we were permitted to redeem all or any portion of the 2021 Senior Notes at 100.000% of the principal amount outstanding.

The 2025 Senior Notes and the 2021 Senior Notes contain certain covenants, as more fully described and defined in the indenture governing the 2025 Senior Notes and the indenture governing the 2021 Senior Notes, 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 2025 Senior Notes and the indenture governing the 2021 Senior Notes. As of December 31, 2019, the Company was in compliance with all terms, conditions, and covenants under the indentures.

The 2025 Senior Notes and the 2021 Senior Notes are fully and unconditionally guaranteed jointly and severally on a senior unsecured basis by the Guarantor Subsidiaries. The 2025 Senior Notes and the 2021 Senior Notes are general, unsecured senior obligations of the Company and the Guarantor Subsidiaries and rank equally in right of payment with all our and the Guarantor Subsidiaries’ existing and future unsecured senior indebtedness. The 2025 Senior Notes and the 2021 Senior Notes are effectively subordinated to our and the Guarantor Subsidiaries’ existing and future secured indebtedness with respect to any assets comprising security or collateral for such indebtedness.

The indenture governing the 2025 Senior Notes and the indenture governing the 2021 Senior Notes limit our ability to pay dividends on, and repurchase, our common shares and any of our preferred shares then outstanding to the amount of the positive balance in our “restricted payments basket,” as defined in the indentures. In each case, the “restricted payments basket” is equal to \$125.0 million plus (1) 50% of our aggregate consolidated net income (or minus 100% of our aggregate consolidated net loss) from October 1, 2015, excluding income or loss from Unrestricted Subsidiaries, plus (2) 100% of the net cash proceeds from either contributions to the common equity of the Company after December 1, 2015 or the sale of qualified equity interests after December 1, 2015, plus other items and subject to other exceptions. The positive balance in our restricted payments basket was \$264.5 million and \$215.2 million at December 31, 2019 and 2018, respectively. The determination to pay future dividends on, or make future repurchases of, our common 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 other factors deemed relevant by our board of directors.

On January 22, 2020, the Company issued \$400.0 million aggregate principal amount of 4.95% Senior Notes due 2028 (the “2028 Senior Notes”). The 2028 Senior Notes bear interest at a rate of 4.95% per year, payable semiannually in arrears on February 1 and August 1 of each year (commencing on August 1, 2020), and mature on February 1, 2028. We may redeem all or any portion of the 2028 Senior Notes on or after February 1, 2023 at a stated redemption price, together with accrued and unpaid interest thereon. The redemption price will initially be 103.713% of the principal amount outstanding, but will decline to 102.475% of the principal amount outstanding if redeemed during the 12 month period beginning on February 1, 2024, will further decline to 101.238% of the principal amount outstanding if redeemed during the 12-month period beginning on February 1, 2025 and will further decline to 100.000% of the principal amount outstanding if redeemed on or after February 1, 2026, but prior to maturity. The 2028 Senior Notes are fully and unconditionally guaranteed jointly and severally on a senior unsecured basis by the Guarantor Subsidiaries. The 2028 Senior Notes are general, unsecured senior obligations of the Company and the Guarantor Subsidiaries and rank equally in right of payment with all our and the Guarantor Subsidiaries’ existing and future unsecured senior indebtedness. The 2028 Senior Notes are effectively subordinated to our and the Guarantor Subsidiaries’ existing and future secured indebtedness with respect to any assets comprising security or collateral for such indebtedness. The 2028 Senior Notes contain covenants substantially similar to the covenants described above for the 2025 Senior Notes, including the limitation on our ability to pay

dividends on, and repurchase, our common shares and any of our preferred shares then outstanding to the amount of the positive balance in our “restricted payments basket,” as more fully described and defined in the indenture governing the 2028 Senior Notes.

The Company used a portion of the net proceeds from the issuance of the 2028 Senior Notes to redeem all of its outstanding 2021 Senior Notes at 100.000% of the principal amount outstanding on January 22, 2020.

Notes Payable - Other

The Company had other borrowings, which are reported in Notes Payable - Other in our Consolidated Balance Sheets, totaling \$5.8 million and \$5.9 million as of December 31, 2019 and 2018, respectively, which are comprised of notes payable acquired in the normal course of business. These other borrowings are included in the debt maturities schedule below.

Maturities over the next five years with respect to the Company’s debt as of December 31, 2019 are as follows:

	Debt Maturities (In thousands)	
2020	\$	140,097
2021		367,215 ^(a)
2022		1,039
2023		304
2024		77
Thereafter		250,000
Total	\$	758,732

(a) In January 2020 we issued \$400 million of the 2028 Senior Notes for net proceeds of approximately \$393.9 million and used a portion of the net proceeds from this offering to redeem, at par, all \$300.0 million aggregate principal amount of our outstanding 2021 Senior Notes.

NOTE 12. Acquisition and Goodwill

Acquisition

In March 2018, we entered the Detroit, Michigan market through the acquisition of the homebuilding assets and operations of Pinnacle Homes for a purchase price of \$101.0 million. The results of Pinnacle Homes’ operations have been included in our financial statements since March 1, 2018, the effective date of the acquisition. As a result of the transaction, we recorded \$16.4 million of goodwill (all of which is tax deductible) which relates to expected synergies from establishing a market presence in Detroit, the experience and knowledge of the acquired workforce and the capital-efficient operating structure of the business acquired. The remaining basis of \$84.6 million is almost entirely comprised of the fair value of the acquired inventory with an insignificant amount attributable to other assets and liabilities.

Goodwill

Goodwill represents the excess of the purchase price paid over the fair value of the net assets acquired and liabilities assumed in business combinations. In connection with the Company’s acquisition of the homebuilding assets and operations of Pinnacle Homes in Detroit, Michigan described above, the Company recorded goodwill of \$16.4 million, which is included as Goodwill in our Consolidated Balance Sheets as of both December 31, 2019 and 2018. This amount was based on the estimated fair values of the acquired assets and liabilities at the date of the acquisition in accordance with ASC 350, *Intangibles, Goodwill and Other* (“ASC 350”).

In accordance with ASC 350, the Company analyzes goodwill for impairment on an annual basis (or more often if indicators of impairment exist). The Company performs a qualitative assessment to determine whether the existence of events or circumstances leads to a determination that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. When performing a qualitative assessment, the Company evaluates qualitative factors such as: (1) macroeconomic conditions, such as a deterioration in general economic conditions; (2) industry and market considerations, such as deterioration in the environment in which the entity operates; (3) cost factors, such as increases in raw materials and labor costs; and (4) overall financial performance, such as negative or declining cash flows or a decline in actual or planned revenue or earnings, to determine if it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount. If the qualitative assessment indicates that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount, then a quantitative assessment is performed to determine the reporting unit’s fair value. If the reporting unit’s carrying value exceeds its fair value, then an impairment loss is recognized for the amount of the excess of the carrying amount over the reporting unit’s fair value. The Company performed its annual goodwill impairment analysis during the fourth quarter of 2019, and as no indicators for impairment existed at December 31, 2019, no impairment was recorded. In addition, no indicators for impairment existed at December 31, 2018.

The evaluation of goodwill for possible impairment includes estimating fair value using one or a combination of valuation techniques, such as discounted cash flows. These valuations require the Company to make estimates and assumptions regarding future operating results, cash flows, changes in capital expenditures, selling prices, profitability, and the cost of capital. Although the Company believes its assumptions and estimates are reasonable, deviations from the assumptions and estimates could produce a materially different result.

NOTE 13. 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 years ended December 31, 2019, 2018 and 2017:

(In thousands, except per share amounts)	Year Ended December 31,		
	2019	2018	2017
NUMERATOR			
Net income	\$ 127,587	\$ 107,663	\$ 72,081
Preferred stock dividends ^(a)	—	—	(3,656)
Excess of fair value over book value of preferred shares redeemed	—	—	(2,257)
Net income available to common shareholders	127,587	107,663	66,168
Interest on 3.25% convertible senior subordinated notes due 2017 ^(b)	—	—	1,106
Interest on 3.00% convertible senior subordinated notes due 2018 ^(c)	—	407	2,113
Diluted income available to common shareholders	\$ 127,587	\$ 108,070	\$ 69,387
DENOMINATOR			
Basic weighted average shares outstanding	27,846	28,234	25,769
Effect of dilutive securities:			
Stock option awards	412	295	342
Deferred compensation awards	217	219	221
3.25% convertible senior subordinated notes due 2017 ^(b)	—	—	1,687
3.00% convertible senior subordinated notes due 2018 ^(c)	—	430	2,669
Diluted weighted average shares outstanding - adjusted for assumed conversions	28,475	29,178	30,688
Earnings per common share			
Basic	\$ 4.58	\$ 3.81	\$ 2.57
Diluted	\$ 4.48	\$ 3.70	\$ 2.26
Anti-dilutive equity awards not included in the calculation of diluted earnings per common share	1	381	23

(a) The Company's Articles of Incorporation authorize the issuance of up to 2,000,000 preferred shares, par value \$.01 per share. On March 15, 2007, the Company issued 4,000,000 depositary shares, each representing 1/1000th of a 9.75% Series A Preferred Share of the Company (the "Series A Preferred Shares"), or 4,000 Series A Preferred Shares in the aggregate. On April 10, 2013, the Company redeemed 2,000 of its Series A Preferred Shares (and the 2,000,000 related depositary shares) for an aggregate redemption price of approximately \$50.4 million in cash. On October 16, 2017, the Company redeemed the remaining 2,000 outstanding Series A Preferred Shares (and the 2,000,000 related depositary shares) for an aggregate redemption price of approximately \$50.4 million in cash. The Company declared and paid a quarterly cash dividend of \$609.375 per share on its then outstanding Series A Preferred Shares in each of the first three quarters of 2017, for aggregate dividend payments on the Series A Preferred Shares of \$3.7 million for the year ended December 31, 2017.

(b) On September 11, 2012, the Company issued \$57.5 million aggregate principal amount of 3.25% Convertible Senior Subordinated Notes due 2017 (the "2017 Convertible Senior Subordinated Notes"). The 2017 Convertible Senior Subordinated Notes were scheduled to mature on September 15, 2017 and the deadline for holders to convert the 2017 Convertible Senior Subordinated Notes was September 13, 2017. As a result of conversion elections made by holders of the 2017 Convertible Senior Subordinated Notes, all \$57.5 million aggregate principal amount of the 2017 Convertible Senior Subordinated Notes were converted and settled through the issuance of our common shares. In total, we issued approximately 2.4 million common shares (at a conversion price per common share of \$23.80).

(c) On March 1, 2013, the Company issued \$86.3 million aggregate principal amount of 3.0% Convertible Senior Subordinated Notes due 2018 (the "2018 Convertible Senior Subordinated Notes"). The 2018 Convertible Senior Subordinated Notes were scheduled to mature on March 1, 2018 and the deadline for holders to convert the 2018 Convertible Senior Subordinated Notes was February 27, 2018. As a result of conversion elections made by holders of the 2018 Convertible Senior Subordinated Notes, (1) approximately \$20.3 million in aggregate principal amount of the 2018 Convertible Senior Subordinated Notes were converted and settled through the issuance of approximately 0.629 million of our common shares (at a conversion price per common share of \$32.31) and (2) the Company repaid in cash approximately \$65.9 million in aggregate principal amount of the 2018 Convertible Senior Subordinated Notes at maturity.

For the years ended December 31, 2018 and 2017, the effect of our convertible debt outstanding was included in the diluted earnings per share calculations.

NOTE 14. Income Taxes

The Company records income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized based on future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and attributable to operating loss and tax credit carryforwards, if any. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered or paid.

During the fourth quarter of 2019, President Trump signed into law the Taxpayer Certainty and Disaster Relief Act of 2019 (“Tax Extenders Act”), which temporarily renewed approximately two dozen credits that previously expired or were set to expire at the end of 2019. Notable for the Company was the retroactive extension of the energy efficient homes credit for 2018 through 2020. As a result, the Company recognized a \$3.5 million tax benefit for the year ended December 31, 2019.

In accordance with ASC 740, we evaluate our deferred tax assets, including the benefit from NOLs and tax credit carryforwards, if any, to determine if a valuation allowance is required. Companies must assess, using significant judgments, whether a valuation allowance should be established based on the consideration of all available evidence using a “more likely than not” standard with significant weight being given to evidence that can be objectively verified. This assessment gives appropriate consideration to all positive and negative evidence related to the realization of the deferred tax assets and considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the length of statutory carryforward periods, our experience with operating losses and our experience of utilizing tax credit carryforwards and tax planning alternatives. Based upon a review of all available evidence, we believe our deferred tax assets were fully realizable in all periods presented.

At December 31, 2019, the Company’s total deferred tax assets were \$20.5 million which is offset by \$10.9 million of total deferred tax liabilities for a \$9.6 million net deferred tax asset which is reported on the Company’s Consolidated Balance Sheets.

The tax effects of the significant temporary differences that comprise the deferred tax assets and liabilities are as follows:

(In thousands)	December 31,	
	2019	2018
Deferred tax assets:		
Warranty, insurance and other accruals	\$ 8,114	\$ 8,218
Equity-based compensation	2,109	4,096
Inventory	4,254	4,441
Operating lease liabilities	4,613	—
State taxes	213	185
Net operating loss carryforward	754	3,240
Deferred charges	426	—
Total deferred tax assets	\$ 20,483	\$ 20,180
Deferred tax liabilities:		
Federal effect of state deferred taxes	\$ 476	\$ 1,079
Depreciation	5,288	4,801
Operating lease right-of-use assets	4,613	—
Prepaid expenses	475	285
Other	—	533
Total deferred tax liabilities	\$ 10,852	\$ 6,698
Net deferred tax asset	\$ 9,631	\$ 13,482

The provision from income taxes consists of the following:

(In thousands)	Year Ended December 31,		
	2019	2018	2017
Current:			
Federal	\$ 29,602	\$ 24,408	\$ 33,392
State	4,985	4,261	2,414
	\$ 34,587	\$ 28,669	\$ 35,806
(In thousands)	Year Ended December 31,		
	2019	2018	2017
Deferred:			
Federal	\$ 1,490	\$ 2,333	\$ 11,916
State	2,361	2,624	521
	\$ 3,851	\$ 4,957	\$ 12,437
Total	\$ 38,438	\$ 33,626	\$ 48,243

For 2019, 2018 and 2017, the Company's effective tax rate was 23.15%, 23.80%, and 40.09%, respectively. The decrease in 2019's effective tax rate from 2018 was primarily attributable to an increased tax benefit from equity compensation. The decrease in the effective tax rate in 2018 from 2017 was primarily attributable to the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act") which included the reduction of the corporate income tax rate from 35% to 21%, partially offset by the repeal of the domestic production activity deduction and other non-deductible costs. Also, as a result of the 2017 Tax Act, the Company revalued its deferred tax assets and recognized a \$6.5 million non-cash tax expense in 2017. Reconciliation of the differences between income taxes computed at the federal statutory tax rate and consolidated benefit from income taxes are as follows:

(In thousands)	Year Ended December 31,		
	2019	2018	2017
Federal taxes at statutory rate	\$ 34,865	\$ 29,671	\$ 42,113
State and local taxes – net of federal tax benefit	5,981	5,636	3,420
Deferred tax asset re-measurement as a result of 2017 Tax Act	—	—	6,520
Equity Compensation	(1,251)	(254)	(1,368)
Manufacturing deduction	—	—	(3,262)
Federal tax credits	(3,493)	(2,817)	—
Other	2,336	1,390	820
Total	\$ 38,438	\$ 33,626	\$ 48,243

The Company files income tax returns in the U.S. federal jurisdiction, and various states. The Company is no longer subject to U.S. federal, state or local examinations by tax authorities for years before 2015. The Company is audited from time to time, and if any adjustments are made, they would be either immaterial or reserved.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in tax expense. At December 31, 2019, 2018 and 2017, we had no unrecognized tax benefits due to the lapse of the statute of limitations and completion of audits in prior years. We believe that our current income tax filing positions and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change.

During 2016, the Company fully utilized its federal NOL carryforwards and federal credit carryforwards. The Company had \$0.6 million of state NOL carryforwards, net of the federal benefit, at December 31, 2019. Our state NOLs may be carried forward from one to 15 years, depending on the tax jurisdiction, with \$0.5 million expiring between 2022 and 2027 and \$0.1 million expiring between 2028 and 2032, absent sufficient state taxable income.

NOTE 15. Business Segments

The application of segment reporting requires significant judgment in determining our operating segments. Operating segments are defined as a component of an enterprise for which discrete financial information is available and is reviewed regularly by the Company's chief operating decision makers to evaluate performance, make operating decisions and determine how to allocate resources. The Company's chief operating decision makers evaluate the Company's performance in various ways, including: (1) the results of our individual homebuilding operating segments and the results of our financial services operations; (2) the results of our 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 because 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. Corporate is a non-operating segment that develops and implements strategic initiatives and supports our operating segments by centralizing key administrative functions such as accounting, finance, treasury, information technology, insurance and risk management, legal, marketing and human resources.

During 2019, we decided to wind down our Washington, D.C. operations, which was substantially complete by December 31, 2019. As a result, during the second quarter of 2019, we re-evaluated our reportable segments and determined that none of our separate Mid-Atlantic operating segments met the reportable criteria set forth in ASC 280. Therefore, we elected to aggregate our Charlotte and Raleigh, North Carolina operating segments (and our remaining Washington, D.C. operations, which was immaterial as of December 31, 2019) into our existing Southern region based on the aggregation criteria described in ASC 280. All prior year segment information has been recast to conform with the 2019 presentation. The change in the reportable segments has no effect on the Company's Consolidated Balance Sheets, Statement of Income or Statement of Cash Flows for the periods presented.

As a result of this re-evaluation and in accordance with the aggregation criteria defined in ASC 280, we have determined our reportable segments as follows: Northern homebuilding, Southern 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. We may, however, be required to reclassify our reportable segments if markets that currently are being aggregated do not continue to share these aggregation characteristics.

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

<u>Northern</u>	<u>Southern</u>
Chicago, Illinois	Orlando, Florida
Cincinnati, Ohio	Sarasota, Florida
Columbus, Ohio	Tampa, Florida
Indianapolis, Indiana	Austin, Texas
Minneapolis/St. Paul, Minnesota	Dallas/Fort Worth, Texas
Detroit, Michigan	Houston, Texas
	San Antonio, Texas
	Charlotte, North Carolina
	Raleigh, North Carolina

The following table shows, by segment, revenue, operating income and interest expense for 2019, 2018 and 2017, as well as the Company's income before income taxes for such periods:

(In thousands)	Year Ended December 31,		
	2019	2018	2017
Revenue:			
Northern homebuilding	\$ 1,027,291	\$ 933,119	\$ 742,577
Southern homebuilding	1,417,676	1,300,967	1,169,701
Financial services ^(a)	55,323	52,196	49,693
Total revenue	\$ 2,500,290	\$ 2,286,282	\$ 1,961,971
Operating income:			
Northern homebuilding ^(b)	\$ 96,239	\$ 86,131	\$ 81,522
Southern homebuilding ^(c)	115,082	95,912	72,396
Financial services ^(a)	27,350	27,482	27,288
Less: Corporate selling, general and administrative expense	(51,582)	(46,364)	(42,547)
Total operating income ^{(b)(c)(d)}	\$ 187,089	\$ 163,161	\$ 138,659
Interest expense:			
Northern homebuilding	\$ 7,474	\$ 7,142	\$ 5,010
Southern homebuilding	10,250	10,073	11,107
Financial services ^(a)	3,651	3,269	2,757
Total interest expense	\$ 21,375	\$ 20,484	\$ 18,874
Equity in income from joint venture arrangements	\$ (311)	\$ (312)	\$ (539)
Acquisition and integration costs ^(e)	—	1,700	—
Income before income taxes	\$ 166,025	\$ 141,289	\$ 120,324
Depreciation and amortization:			
Northern homebuilding	\$ 2,944	\$ 2,448	\$ 2,069
Southern homebuilding	4,778	4,472	4,579
Financial services	2,095	1,281	1,503
Corporate	6,133	6,330	6,023
Total depreciation and amortization	\$ 15,950	\$ 14,531	\$ 14,174

(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 an immaterial amount of mortgage refinancing.

(b) Includes \$0.6 million and 5.1 million of acquisition-related charges taken during 2019 and 2018, respectively, as a result of our acquisition of Pinnacle Homes in Detroit, Michigan on March 1, 2018.

(c) Includes an \$8.5 million charge for stucco-related repair costs in certain of our Florida communities (as more fully discussed in [Note 8](#) to our Consolidated Financial Statements) taken during 2017.

(d) For the years ended December 31, 2019, 2018 and 2017, total operating income was reduced by \$5.0 million, \$5.8 million and \$7.7 million, respectively, related to asset impairment charges taken during the period.

(e) Represents costs which include, but are not limited to, legal fees and expenses, travel and communication expenses, cost of appraisals, accounting fees and expenses, and miscellaneous expenses related to our acquisition of Pinnacle Homes. As these costs are not eligible for capitalization as initial direct costs, such amounts are expensed as incurred.

The following tables show total assets by segment at December 31, 2019 and 2018:

December 31, 2019				
(In thousands)	Northern	Southern	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	\$ 3,655	\$ 24,877	\$ —	\$ 28,532
Inventory ^(a)	783,972	957,003	—	1,740,975
Investments in joint venture arrangements	1,672	36,213	—	37,885
Other assets ^(d)	21,564	52,662 ^(b)	223,976	298,202
Total assets	\$ 810,863	\$ 1,070,755	\$ 223,976	\$ 2,105,594

December 31, 2018				
(In thousands)	Northern	Southern	Corporate, Financial Services and Unallocated	Total
Deposits on real estate under option or contract	\$ 5,725	\$ 27,937	\$ —	\$ 33,662
Inventory ^(a)	696,057	944,741	—	1,640,798
Investments in joint venture arrangements	1,562	34,308	—	35,870
Other assets	19,524	43,086 ^(b)	248,641 ^(c)	311,251
Total assets	\$ 722,868	\$ 1,050,072	\$ 248,641	\$ 2,021,581

- (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.
- (b) Includes development reimbursements from local municipalities.
- (c) Includes asset held for sale for \$5.6 million.
- (d) Includes \$18.4 million of operating lease right-of-use assets recorded as a result of the adoption of ASU 2016-02 on January 1, 2019. See [Note 9](#) to our Consolidated Financial Statements for further information.

NOTE 16. Supplemental Guarantor Information

The Company's obligations under the 2025 Senior Notes and the 2021 Senior 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 Guarantor Subsidiaries of the 2025 Senior Notes and the 2021 Senior Notes are the same. See [Note 11](#) for a description of our 2028 Senior Notes issued on January 22, 2020 which have the same Guarantor Subsidiaries as our 2025 Senior Notes.

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 (1) 2025 Senior Notes, on a joint and several senior unsecured basis and (2) 2021 Senior Notes, on a joint and several senior 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 December 31, 2019, 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 governing the 2025 Senior Notes and the indenture governing the 2021 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)	Year Ended December 31, 2019				
	M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated
Revenue	\$ —	\$ 2,444,967	\$ 55,323	\$ —	\$ 2,500,290
Costs and expenses:					
Land and housing	—	2,005,861	—	—	2,005,861
Impairment of inventory and investment in joint venture arrangements	—	5,002	—	—	5,002
General and administrative	—	119,153	28,801	—	147,954
Selling	—	154,384	—	—	154,384
Equity in income from joint venture arrangements	—	—	(311)	—	(311)
Interest	—	17,724	3,651	—	21,375
Total costs and expenses	—	2,302,124	32,141	—	2,334,265
Income before income taxes	—	142,843	23,182	—	166,025
Provision for income taxes	—	33,919	4,519	—	38,438
Equity in subsidiaries	127,587	—	—	(127,587)	—
Net income	\$ 127,587	\$ 108,924	\$ 18,663	\$ (127,587)	\$ 127,587

CONDENSED CONSOLIDATING STATEMENTS OF INCOME

Year Ended December 31, 2018						
(In thousands)	M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated	
Revenue	\$ —	\$ 2,234,086	\$ 52,196	\$ —	\$ 2,286,282	
Costs and expenses:						
Land and housing	—	1,836,704	—	—	1,836,704	
Impairment of inventory and investment in joint venture arrangements	—	5,809	—	—	5,809	
Acquisition related expenses	—	1,700	—	—	1,700	
General and administrative	—	112,225	25,554	—	137,779	
Selling	—	142,829	—	—	142,829	
Equity in income from joint venture arrangements	—	—	(312)	—	(312)	
Interest	—	17,215	3,269	—	20,484	
Total costs and expenses	—	2,116,482	28,511	—	2,144,993	
Income before income taxes	—	117,604	23,685	—	141,289	
Provision for income taxes	—	28,545	5,081	—	33,626	
Equity in subsidiaries	107,663	—	—	(107,663)	—	
Net income	\$ 107,663	\$ 89,059	\$ 18,604	\$ (107,663)	\$ 107,663	

Year Ended December 31, 2017						
(In thousands)	M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated	
Revenue	\$ —	\$ 1,912,278	\$ 49,693	\$ —	\$ 1,961,971	
Costs and expenses:						
Land and housing	—	1,561,022	—	—	1,561,022	
Impairment of inventory and investment in joint venture arrangements	—	7,681	—	—	7,681	
General and administrative	—	103,094	23,188	—	126,282	
Selling	—	128,327	—	—	128,327	
Equity in income from joint venture arrangements	—	—	(539)	—	(539)	
Interest	—	16,117	2,757	—	18,874	
Total costs and expenses	—	1,816,241	25,406	—	1,841,647	
Income before income taxes	—	96,037	24,287	—	120,324	
Provision for income taxes	—	40,570	7,673	—	48,243	
Equity in subsidiaries	72,081	—	—	(72,081)	—	
Net income	\$ 72,081	\$ 55,467	\$ 16,614	\$ (72,081)	\$ 72,081	
Preferred dividends	3,656	—	—	—	3,656	
Excess of fair value over book value of preferred shares redeemed	2,257	—	—	—	2,257	
Net income available to common shareholders	\$ 66,168	\$ 55,467	\$ 16,614	\$ (72,081)	\$ 66,168	

CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2019

(In thousands)	M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated
ASSETS:					
Cash, cash equivalents and restricted cash	\$ —	\$ 219	\$ 11,589	\$ (5,725)	\$ 6,083
Mortgage loans held for sale	—	—	155,244	—	155,244
Inventory	—	1,769,507	—	—	1,769,507
Property and equipment - net	—	21,372	746	—	22,118
Investment in joint venture arrangements	—	35,391	2,494	—	37,885
Operating lease right-of-use assets	—	15,689	2,726	—	18,415
Investment in subsidiaries	928,942	—	—	(928,942)	—
Deferred income taxes, net of valuation allowances	—	9,631	—	—	9,631
Intercompany assets	619,204	—	—	(619,204)	—
Goodwill	—	16,400	—	—	16,400
Other assets	1,411	56,134	12,766	—	70,311
TOTAL ASSETS	\$ 1,549,557	\$ 1,924,343	\$ 185,565	\$ (1,553,871)	\$ 2,105,594
LIABILITIES AND SHAREHOLDERS' EQUITY					
LIABILITIES:					
Accounts payable	\$ —	\$ 130,136	\$ 615	\$ (5,725)	\$ 125,026
Customer deposits	—	34,462	—	—	34,462
Intercompany liabilities	—	618,946	258	(619,204)	—
Operating lease liabilities	—	15,691	2,724	—	18,415
Other liabilities	—	141,015	6,922	—	147,937
Community development district obligations	—	13,531	—	—	13,531
Obligation for consolidated inventory not owned	—	7,934	—	—	7,934
Notes payable bank - homebuilding operations	—	66,000	—	—	66,000
Notes payable bank - financial services operations	—	—	136,904	—	136,904
Notes payable - other	—	5,828	—	—	5,828
Senior notes due 2021 - net	298,988	—	—	—	298,988
Senior notes due 2025 - net	247,092	—	—	—	247,092
TOTAL LIABILITIES	546,080	1,033,543	147,423	(624,929)	1,102,117
Shareholders' equity	1,003,477	890,800	38,142	(928,942)	1,003,477
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,549,557	\$ 1,924,343	\$ 185,565	\$ (1,553,871)	\$ 2,105,594

CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2018

(In thousands)	M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated
ASSETS:					
Cash, cash equivalents and restricted cash	\$ —	\$ 5,554	\$ 15,975	\$ —	\$ 21,529
Mortgage loans held for sale	—	—	169,651	—	169,651
Inventory	—	1,674,460	—	—	1,674,460
Property and equipment - net	—	28,485	910	—	29,395
Investment in joint venture arrangements	—	33,297	2,573	—	35,870
Investment in subsidiaries	817,986	—	—	(817,986)	—
Deferred income tax asset	—	13,482	—	—	13,482
Intercompany assets	579,447	—	—	(579,447)	—
Goodwill	—	16,400	—	—	16,400
Other assets	2,325	47,738	10,731	—	60,794
TOTAL ASSETS	\$ 1,399,758	\$ 1,819,416	\$ 199,840	\$ (1,397,433)	\$ 2,021,581
LIABILITIES AND SHAREHOLDERS' EQUITY					
LIABILITIES:					
Accounts payable	\$ —	\$ 131,089	\$ 422	\$ —	\$ 131,511
Customer deposits	—	32,055	—	—	32,055
Intercompany liabilities	—	578,498	949	(579,447)	—
Other liabilities	—	140,860	9,191	—	150,051
Community development district obligations	—	12,392	—	—	12,392
Obligation for consolidated inventory not owned	—	19,308	—	—	19,308
Notes payable bank - homebuilding operations	—	117,400	—	—	117,400
Notes payable bank - financial services operations	—	—	153,168	—	153,168
Notes payable - other	—	5,938	—	—	5,938
Senior notes due 2021 - net	297,884	—	—	—	297,884
Senior notes due 2025 - net	246,571	—	—	—	246,571
TOTAL LIABILITIES	544,455	1,037,540	163,730	(579,447)	1,166,278
Shareholders' equity	855,303	781,876	36,110	(817,986)	855,303
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,399,758	\$ 1,819,416	\$ 199,840	\$ (1,397,433)	\$ 2,021,581

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Year Ended December 31, 2019

(In thousands)	M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash provided by (used in) operating activities	\$ 16,630	\$ 36,830	\$ 28,801	\$ (16,630)	\$ 65,631
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment	—	(4,264)	(262)	—	(4,526)
Intercompany investing	(31,124)	—	—	31,124	—
Investments in and advances to joint venture arrangements	—	(30,036)	(152)	—	(30,188)
Proceeds from the sale of property	—	6,308	—	—	6,308
Return of capital from joint venture arrangements	—	—	812	—	812
Net cash (used in) provided by investing activities	(31,124)	(27,992)	398	31,124	(27,594)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from bank borrowings - homebuilding operations	—	696,500	—	—	696,500
Repayment of bank borrowings - homebuilding operations	—	(747,900)	—	—	(747,900)
Net repayment of bank borrowings - financial services operations	—	—	(16,264)	—	(16,264)
Principal repayments of notes payable - other and CDD bond obligations	—	(110)	—	—	(110)
Dividends paid	—	—	(16,630)	16,630	—
Repurchase of common shares	(5,150)	—	—	—	(5,150)
Intercompany financing	—	37,337	(488)	(36,849)	—
Debt issue costs	—	—	(203)	—	(203)
Proceeds from exercise of stock options	19,644	—	—	—	19,644
Net cash provided by (used in) financing activities	14,494	(14,173)	(33,585)	(20,219)	(53,483)
Net decrease in cash, cash equivalents and restricted cash	—	(5,335)	(4,386)	(5,725)	(15,446)
Cash, cash equivalents and restricted cash balance at beginning of period	—	5,554	15,975	—	21,529
Cash, cash equivalents and restricted cash balance at end of period	\$ —	\$ 219	\$ 11,589	\$ (5,725)	\$ 6,083

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Year Ended December 31, 2018

(In thousands)	M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash provided by (used in) operating activities	\$ 12,185	\$ (25,882)	\$ 23,290	\$ (12,185)	\$ (2,592)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment	—	(7,896)	(245)	—	(8,141)
Acquisition	—	(100,960)	—	—	(100,960)
Intercompany investing	12,986	—	—	(12,986)	—
Investments in and advances to joint venture arrangements	—	(30,588)	(1,279)	—	(31,867)
Return of capital from joint venture arrangements	—	—	676	—	676
Proceeds from the sale of mortgage servicing rights	—	—	6,335	—	6,335
Net cash provided by (used in) investing activities	12,986	(139,444)	5,487	(12,986)	(133,957)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Repayment of convertible senior subordinated notes	—	(65,941)	—	—	(65,941)
Proceeds from bank borrowings - homebuilding operations	—	666,600	—	—	666,600
Repayment of bank borrowings - homebuilding operations	—	(549,200)	—	—	(549,200)
Net proceeds from bank borrowings - financial services operations	—	—	(15,027)	—	(15,027)
Principal repayments of notes payable - other and CDD bond obligations	—	(4,638)	—	—	(4,638)
Dividends paid	—	—	(12,185)	12,185	—
Repurchase of common shares	(25,709)	—	—	—	(25,709)
Intercompany financing	—	(7,388)	(5,598)	12,986	—
Debt issue costs	—	(75)	(173)	—	(248)
Proceeds from exercise of stock options	538	—	—	—	538
Net cash (used in) provided by financing activities	(25,171)	39,358	(32,983)	25,171	6,375
Net decrease in cash, cash equivalents and restricted cash	—	(125,968)	(4,206)	—	(130,174)
Cash, cash equivalents and restricted cash balance at beginning of period	—	131,522	20,181	—	151,703
Cash, cash equivalents and restricted cash balance at end of period	\$ —	\$ 5,554	\$ 15,975	\$ —	\$ 21,529

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Year Ended December 31, 2017

(In thousands)	M/I Homes, Inc.	Guarantor Subsidiaries	Unrestricted Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash provided by (used in) operating activities	\$ 15,581	\$ (63,922)	\$ 10,738	\$ (15,581)	\$ (53,184)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment	—	(8,535)	(264)	—	(8,799)
Investments in and advances to joint venture arrangements	—	(6,117)	(5,971)	—	(12,088)
Return of capital from joint venture arrangements	—	—	3,518	—	3,518
Intercompany investing	27,270	—	—	(27,270)	—
Proceeds from the sale of mortgage servicing rights	—	—	8,212	—	8,212
Net cash provided by (used in) investing activities	27,270	(14,652)	5,495	(27,270)	(9,157)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from issuance of senior notes	—	250,000	—	—	250,000
Redemption of preferred shares	(50,420)	—	—	—	(50,420)
Proceeds from bank borrowings - homebuilding operations	—	398,300	—	—	398,300
Repayment of bank borrowings - homebuilding operations	—	(438,600)	—	—	(438,600)
Net proceeds from bank borrowings - financial services operations	—	—	15,300	—	15,300
Principal repayments of note payable - other and CDD bond obligations	—	4,161	—	—	4,161
Dividends paid	(3,656)	—	(15,581)	15,581	(3,656)
Intercompany financing	—	(18,143)	(9,127)	27,270	—
Debt issue costs	—	(6,549)	(158)	—	(6,707)
Proceeds from exercise of stock options	11,225	—	—	—	11,225
Net cash (used in) provided by financing activities	(42,851)	189,169	(9,566)	42,851	179,603
Net increase in cash, cash equivalents and restricted cash	—	110,595	6,667	—	117,262
Cash, cash equivalents and restricted cash balance at beginning of period	—	20,927	13,514	—	34,441
Cash, cash equivalents and restricted cash balance at end of period	\$ —	\$ 131,522	\$ 20,181	\$ —	\$ 151,703

NOTE 17. Supplementary Financial Data

The following tables set forth our selected consolidated financial and operating data for the quarterly periods indicated.

(In thousands, except per share amounts)	March 31, 2019 (Unaudited)	June 30, 2019 (Unaudited)	September 30, 2019 (Unaudited)	December 31, 2019 (Unaudited)
Revenue	\$ 481,109	\$ 623,686	\$ 653,345	\$ 742,150
Gross margin ^(a)	\$ 92,642	\$ 119,829	\$ 134,181	\$ 142,775
Net income to common shareholders ^(a)	\$ 17,723	\$ 30,246	\$ 37,838	\$ 41,780
Earnings per common share: ^(c)				
Basic	\$ 0.64	\$ 1.10	\$ 1.35	\$ 1.48
Diluted	\$ 0.63	\$ 1.08	\$ 1.32	\$ 1.44
Weighted average common shares outstanding:				
Basic	27,498	27,599	27,981	28,297
Diluted	27,970	28,090	28,598	29,049

(In thousands, except per share amounts)	March 31, 2018 (Unaudited)	June 30, 2018 (Unaudited)	September 30, 2018 (Unaudited)	December 31, 2018 (Unaudited)
Revenue	\$ 437,857	\$ 558,098	\$ 567,842	\$ 722,485
Gross margin ^(b)	\$ 89,155	\$ 108,762	\$ 115,813	\$ 130,039
Net income to common shareholders ^(b)	\$ 18,063	\$ 27,911	\$ 29,282	\$ 32,407
Earnings per common share: ^(c)				
Basic	\$ 0.64	\$ 0.98	\$ 1.03	\$ 1.17
Diluted	\$ 0.60	\$ 0.96	\$ 1.01	\$ 1.15
Weighted average common shares outstanding:				
Basic	28,124	28,571	28,469	27,774
Diluted	30,544	29,101	28,906	28,181

- (a) Gross margin and net income to common shareholders include \$0.4 million, \$0.1 million and \$0.1 million of charges related to acquisition-related charges taken during 2019 as a result of our acquisition of Pinnacle Homes in Detroit, Michigan on March 1, 2018 (as more fully discussed in [Note 12](#) to our Consolidated Financial Statements) taken during the first, second and third quarters of 2019, respectively, and \$5.0 million of impairment charges taken during the fourth quarter of 2019.
- (b) Gross margin and net income to common shareholders include \$0.9 million, \$3.0 million, \$0.7 million and \$0.6 million of charges related to acquisition-related charges taken during 2018 as a result of our acquisition of Pinnacle Homes on March 1, 2018 taken during the first, second, third and fourth quarters of 2018, respectively, and \$5.8 million of impairment charges taken during the fourth quarter of 2018.
- (c) Due to rounding, the sum of quarterly results may not equal the total for the year. Additionally, quarterly and year-to-date computations of per share amounts are made independently.

We typically experience significant seasonality and quarter-to-quarter variability in our operating results. In general, homes delivered increase substantially in the second half of the year compared to the first half of the year as we sell more homes during the first and second quarters which results in more homes being delivered in the third and fourth quarters.

NOTE 18. Share Repurchase Program

On August 14, 2018, the Company announced that its Board of Directors authorized a share repurchase program (the “2018 Share Repurchase Program”) pursuant to which the Company may purchase up to \$50 million of its outstanding common shares through open market transactions, privately negotiated transactions or otherwise in accordance with all applicable laws. During the year ended December 31, 2019, the Company repurchased 0.2 million outstanding common shares at an aggregate purchase price of \$5.2 million under the 2018 Share Repurchase Program. The Company did not repurchase any shares during the second, third or fourth quarters of 2019. As of December 31, 2019, the Company has repurchased 1.3 million outstanding common shares at an aggregate purchase price of \$30.9 million under the 2018 Share Repurchase Program and \$19.1 million remains available for repurchases under the 2018 Share Repurchase Program. The timing, amount and other terms and conditions of any additional repurchases under the 2018 Share Repurchase Program will be determined by the Company’s management at its discretion based on a variety of factors, including the market price of the Company’s common shares, corporate considerations, general market and economic conditions and legal requirements. The 2018 Share Repurchase Program does not have an expiration date and the Board may modify, discontinue or suspend it at any time.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. 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) under the Exchange Act) was performed by the Company's management, with the participation of the Company's principal executive officer and principal financial officer, as required by Rule 13a-15(b) under the Exchange Act. 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 Annual Report on Form 10-K.

Management's Annual Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management, with the participation of the principal executive officer and the principal financial officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework (2013)*. Based on this assessment, management believes that, as of December 31, 2019, the Company's internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2019 has been audited by Deloitte & Touche LLP, our independent registered public accounting firm, as stated in its attestation report included on page 89 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and Board of Directors of M/I Homes, Inc.:

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of M/I Homes, Inc. and subsidiaries (the “Company”) as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2019, of the Company and our report dated February 21, 2020, expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the consolidated financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Columbus, Ohio
February 21, 2020

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated herein by reference to our definitive Proxy Statement relating to the 2020 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Exchange Act.

We have adopted a Code of Business Conduct and Ethics that applies to our directors and all employees of the Company. The Code of Business Conduct and Ethics is posted on our website, www.mihomes.com. We intend to satisfy the requirements under Item 5.05 of Form 8-K regarding disclosure of amendments to, or waivers from, provisions of our Code of Business Conduct and Ethics that apply to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, by posting such information on our website. Copies of the Code of Business Conduct and Ethics will be provided free of charge upon written request directed to Investor Relations, M/I Homes, Inc., 3 Easton Oval, Suite 500, Columbus, OH 43219.

Item 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to our definitive Proxy Statement relating to the 2020 Annual Meeting of Shareholders.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2019 with respect to the common shares issuable under the Company's equity compensation plans:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders	1,735,779 ⁽¹⁾	\$25.30 ⁽²⁾	1,714,293 ⁽³⁾
Equity compensation plans not approved by shareholders	63,958 ⁽⁴⁾	—	—
Total	1,799,737	\$25.30	1,714,293

- (1) Consists of the 2018 Long-Term Incentive Plan ("2018 LTIP") (415,500 outstanding stock options, 41,500 outstanding director stock units and 80,538 outstanding performance share units ("PSU's") (assuming the maximum number of PSU's will be earned)), the 2009 Long-Term Incentive Plan ("2009 LTIP") (1,208,220 outstanding stock options, 62,500 outstanding director stock units and 155,329 outstanding PSU's (assuming the maximum number of PSU's will be earned)), which plan was terminated in May 2018, and the 2006 Director Equity Incentive Plan ("2006 Director Plan") (8,059 outstanding director stock units), which plan was terminated in May 2009.
- (2) The weighted average exercise price relates to the stock options granted under the 2018 LTIP and the 2009 LTIP. The weighted average exercise price does not take into account the director stock units granted under the 2018 LTIP, the 2009 LTIP and the 2006 Director Plan or the PSU's granted under the 2018 LTIP and the 2009 LTIP because the director stock units and the PSU's are full value awards and have no exercise price. The director stock units and the PSU's (if earned) will be settled at a future date in common shares on a one-for-one basis without the payment of any exercise price.
- (3) Represents the aggregate number of common shares remaining available for issuance under the 2018 LTIP. Pursuant to the terms of the 2018 LTIP, and subject to certain adjustments provided therein, the aggregate number of common shares with respect to which awards may be granted under the 2018 LTIP is 2,250,000 common shares plus any common shares subject to outstanding awards under the 2009 LTIP as of May 8, 2018 that on or after May 8, 2018 cease for any reason to be subject to such awards other than by reason of exercise or settlement of the awards to the extent they are exercised for or settled in vested and non-forfeitable common shares. Pursuant to the terms of the 2018 LTIP, upon the grant of a full value award thereunder (including director stock units and PSU's), we reduce the number of common shares available for issuance under the 2018 LTIP by an amount equal to the number of shares subject to the award multiplied by 1.50.
- (4) Consists of the Amended and Restated Director Deferred Compensation Plan and the Amended and Restated Executives' Deferred Compensation Plan. Pursuant to these plans, our directors and eligible employees may defer the payment of all or a portion of their director fees and annual cash bonuses, respectively, and the deferred amount is converted into that number of whole phantom stock units determined by dividing the deferred amount by the closing price of our common shares on the New York Stock Exchange on the date of such conversion (which is the same date the fees or bonus is paid) without any discount on the common share price or premium applied to the deferred amount. The phantom stock units are settled at a future date in common shares on a one-for-one basis. Neither the Director Deferred Compensation Plan nor the Executives' Deferred Compensation Plan provides for a specified limit on the number of common shares which may be attributable to participants' accounts relating to phantom stock units and issued under the terms of these plans.

The remaining information required by this item is incorporated herein by reference to our definitive Proxy Statement relating to the 2020 Annual Meeting of Shareholders.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference to our definitive Proxy Statement relating to the 2020 Annual Meeting of Shareholders.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated herein by reference to our definitive Proxy Statement relating to the 2020 Annual Meeting of Shareholders.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report.

(1) The following financial statements are contained in Item 8:

Financial Statements	Page in this report
Report of Independent Registered Public Accounting Firm	44
Consolidated Statements of Income for the Years Ended December 31, 2019, 2018, and 2017	46
Consolidated Balance Sheets as of December 31, 2019 and 2018	47
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2019, 2018 and 2017	48
Consolidated Statements of Cash Flows for the Years Ended December 31, 2019, 2018 and 2017	49
Notes to Consolidated Financial Statements	50

(2) Financial Statement Schedules:

None required.

(3) Exhibits:

The following exhibits required by Item 601 of Regulation S-K are filed as part of this report:

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation of M/I Homes, Inc., incorporated herein by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019.
3.2	Amended and Restated Regulations of M/I Homes, Inc., incorporated herein by reference to Exhibit 3.4 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 (File No. 1-12434).
3.3	Amendment to Article I(f) of the Amended and Restated Regulations of M/I Homes, Inc., incorporated herein by reference to Exhibit 3.1(b) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 (File No. 1-12434).
3.4	Amendment to Article II(f) of the Amended and Restated Regulations of M/I Homes, Inc., incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on March 13, 2009 (File No. 1-12434).
4.1	Specimen certificate representing M/I Homes, Inc.'s common shares, par value \$.01 per share, incorporated herein by reference to Exhibit 4 to the Company's Registration Statement on Form S-1 (File No. 33-68564) [filed in paper form with the SEC].
4.2	Indenture, dated as of December 1, 2015, by and among M/I Homes, Inc., the guarantors named therein and U.S. Bank National Association, as trustee of M/I Homes, Inc.'s 6.75% Senior Notes due 2021, incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on December 2, 2015.
4.3	Form of 6.75% Senior Notes due 2021 incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on December 2, 2015.
4.4	Indenture, dated as of August 3, 2017, by and among M/I Homes, Inc., the guarantors named therein and U.S. Bank National Association, as trustee of M/I Homes, Inc.'s 5.625% Senior Notes due 2025, incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on August 3, 2017.

- 4.5 [Form of 5.625% Senior Notes due 2025 incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on August 3, 2017.](#)
- 4.6 [Description of M/I Homes, Inc.'s Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934. \(Filed herewith.\)](#)
- 10.1* [M/I Homes, Inc. 401\(k\) Profit Sharing Plan, as amended and restated on April 1, 2018, incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8 filed on June 15, 2018.](#)
- 10.2 [Credit Agreement dated July 18, 2013 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 July 19, 2013 \(File No. 1-12434\).](#)
- 10.3 [First Amendment to Credit Agreement dated October 20, 2014 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 October 23, 2014.](#)
- 10.4 [Second Amendment to Credit Agreement, dated July 18, 2017, 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 July 20, 2017.](#)
- 10.5 [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.](#)
- 10.6 [Commitment Increase Activation Notice dated June 29, 2018, 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 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018.](#)
- 10.7 [New Lender Supplement, dated June 29, 2018, by and among M/I Homes, Inc., as borrower, Flagstar Bank, FSB, and PNC Bank, National Association, as administrative agent, incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018.](#)
- 10.8 [Second Amended and Restated Mortgage Warehousing Agreement, dated June 24, 2016, by and among M/I Financial, LLC, as borrower, Comerica Bank, as agent, and Comerica Bank, The Huntington National Bank, and BMO Harris Bank N.A., as lenders, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 28, 2016.](#)
- 10.9 [First Amendment to Second Amended and Restated Mortgage Warehousing Agreement, dated June 23, 2017, by and among M/I Financial, LLC, as borrower, the lenders party thereto and Comerica Bank, as administrative agent, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 27, 2017.](#)
- 10.10 [Second Amendment to Second Amended and Restated Mortgage Warehousing Agreement, dated June 22, 2018, by and among M/I Financial, LLC, as borrower, the lenders party thereto and Comerica Bank, as administrative agent, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 22, 2018.](#)
- 10.11 [Third Amendment to Second Amended and Restated Mortgage Warehousing Agreement, dated June 21, 2019, by and among M/I Financial, LLC, as borrower, the lenders party thereto and Comerica Bank, as administrative agent, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 21, 2019.](#)
- 10.12 [Second Amended and Restated Master Repurchase Agreement dated as of October 30, 2017 by and between M/I Financial and Sterling National Bank, incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017.](#)
- 10.13 [First Amendment to Second Amended and Restated Master Repurchase Agreement effective as of October 29, 2018 by and between M/I Financial and Sterling National Bank, incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018.](#)

- 10.14 [Second Amendment to Second Amended and Restated Master Repurchase Agreement effective as of October 28, 2019 by and between M/I Financial and Sterling National Bank, incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019.](#)
- 10.15* [M/I Homes, Inc. 1993 Stock Incentive Plan as Amended, dated April 22, 1999, incorporated herein by reference to Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 \(File No. 1-12434\).](#)
- 10.16* [First Amendment to M/I Homes, Inc. 1993 Stock Incentive Plan as Amended, dated August 11, 1999, incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 \(File No. 1-12434\).](#)
- 10.17* [Second Amendment to M/I Homes, Inc. 1993 Stock Incentive Plan as Amended, dated February 13, 2001, incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 \(File No. 1-12434\).](#)
- 10.18* [Third Amendment to M/I Homes, Inc. 1993 Stock Incentive Plan as Amended, dated April 27, 2006, incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 \(File No. 1-12434\).](#)
- 10.19* [Fourth Amendment to M/I Homes, Inc. 1993 Stock Incentive Plan as Amended, effective as of August 28, 2008, incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 \(File No. 1-12434\).](#)
- 10.20* [M/I Homes, Inc. Amended and Restated 2006 Director Equity Incentive Plan, effective as of August 28, 2008, incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 \(File No. 1-12434\).](#)
- 10.21* [M/I Homes, Inc. Amended and Restated Director Deferred Compensation Plan, effective as of August 28, 2008, incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 \(File No. 1-12434\).](#)
- 10.22* [M/I Homes, Inc. Amended and Restated Executives' Deferred Compensation Plan, effective as of August 28, 2008, incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 \(File No. 1-12434\).](#)
- 10.23* [Collateral Assignment Split-Dollar Agreement, dated as of September 24, 1997, by and between M/I Homes, Inc. and Phillip Creek, incorporated herein by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 \(File No. 1-12434\).](#)
- 10.24* [Change of Control Agreement between M/I Homes, Inc. and Robert H. Schottenstein, dated as of July 3, 2008, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 3, 2008 \(File No. 1-12434\).](#)
- 10.25* [Change of Control Agreement between M/I Homes, Inc. and Phillip G. Creek, dated as of July 3, 2008, incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 3, 2008 \(File No. 1-12434\).](#)
- 10.26* [Change of Control Agreement between M/I Homes, Inc. and J. Thomas Mason, dated as of July 3, 2008, incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on July 3, 2008 \(File No. 1-12434\).](#)
- 10.27* [M/I Homes, Inc. 2009 Annual Incentive Plan, incorporated herein by reference to Appendix B to the Company's proxy statement on Schedule 14A relating to the 2014 Annual Meeting of Shareholders of the Company filed on April 2, 2014.](#)
- 10.28* [M/I Homes, Inc. 2009 Long-Term Incentive Plan, as amended effective May 3, 2016, incorporated herein by reference to Appendix A to the Company's proxy statement on Schedule 14A relating to the 2016 Annual Meeting of Shareholders of the Company filed on March 30, 2016.](#)
- 10.29* [Form of Stock Units Award Agreement for Directors under the M/I Homes, Inc. 2009 Long-Term Incentive Plan, incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 \(File No. 1-12434\).](#)

- 10.30* [Form of Nonqualified Stock Option Award Agreement for Employees under the M/I Homes, Inc. 2009 Long-Term Incentive Plan, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 11, 2010 \(File No. 1-12434\).](#)
- 10.31* [Form of Performance Share Unit Award Agreement under the M/I Homes, Inc. 2009 Long-Term Incentive Plan, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 7, 2014.](#)
- 10.32* [M/I Homes, Inc. 2018 Long-Term Incentive Plan, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 8, 2018.](#)
- 10.33* [Form of Nonqualified Stock Option Award Agreement for Employees under the M/I Homes, Inc. 2018 Long-Term Incentive Plan, incorporated herein by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018.](#)
- 10.34* [Form of Stock Units Award Agreement for Directors under the M/I Homes, Inc. 2018 Long-Term Incentive Plan, incorporated herein by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018.](#)
- 10.35* [Form of Performance Share Unit Award Agreement under the M/I Homes, Inc. 2018 Long-Term Incentive Plan, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 8, 2019.](#)
- 21 [Subsidiaries of M/I Homes, Inc. \(Filed herewith.\)](#)
- 23 [Consent of Deloitte & Touche LLP. \(Filed herewith.\)](#)
- 24 [Powers of Attorney. \(Filed herewith.\)](#)
- 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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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.)
- 104 Cover Page Interactive Data File (embedded within the Inline XBRL Document). (Furnished herewith.)

* Management contract or compensatory plan or arrangement.

(b) Exhibits.

Reference is made to Item 15(a)(3) above for a complete list of exhibits that are filed with this report. The following is a list of exhibits, included in Item 15(a)(3) above, that are filed concurrently with this report.

Exhibit Number	Description
4.6	Description of M/I Homes, Inc.'s Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.
21	Subsidiaries of M/I Homes, Inc.
23	Consent of Deloitte & Touche LLP.
24	Powers of Attorney.
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.
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.
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.
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.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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.)
104	Cover Page Interactive Data File (embedded within the Inline XBRL Document). (Furnished herewith.)

(c) Financial statement schedules

None required.

Item 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on this 21st day of February 2020.

M/I Homes, Inc.
(Registrant)

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 21st day of February 2020.

<u>NAME AND TITLE</u>	<u>NAME AND TITLE</u>
<u>FRIEDRICH K. M. BÖHM*</u> Friedrich K. M. Böhm Director	<u>/s/Robert H. Schottenstein</u> Robert H. Schottenstein Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)
<u>WILLIAM H. CARTER*</u> William H. Carter Director	<u>/s/Phillip G. Creek</u> Phillip G. Creek Executive Vice President, Chief Financial Officer and Director (Principal Financial Officer)
<u>MICHAEL P. GLIMCHER*</u> Michael P. Glimcher Director	<u>/s/Ann Marie W. Hunker</u> Ann Marie W. Hunker Vice President, Corporate Controller (Principal Accounting Officer)
<u>ELIZABETH K. INGRAM*</u> Elizabeth K. Ingram Director	
<u>NANCY J. KRAMER*</u> Nancy J. Kramer Director	
<u>J. THOMAS MASON*</u> J. Thomas Mason Executive Vice President, Chief Legal Officer, Secretary and Director	
<u>NORMAN L. TRAEGER*</u> Norman L. Traeger Director	

*The above-named directors of the registrant execute this report by Phillip G. Creek, their Attorney-in-Fact, pursuant to the powers of attorney executed by the above-named directors, which powers of attorney are filed as Exhibit 24 to this report.

By: /s/Phillip G. Creek
Phillip G. Creek, *Attorney-In-Fact*