

Edgar Filing: Taylor Morrison Home Corp - Form 10-Q

Taylor Morrison Home Corp  
Form 10-Q  
November 02, 2016  
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016  
OR

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: 001-35873

TAYLOR MORRISON HOME CORPORATION  
(Exact name of Registrant as specified in its Charter)

Delaware 90-0907433  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
4900 N. Scottsdale Road, Suite 2000 85251  
Scottsdale, Arizona  
(Address of principal executive offices) (Zip Code)  
(480) 840-8100  
(Registrant's telephone number, including area code)  
N/A  
(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Edgar Filing: Taylor Morrison Home Corp - Form 10-Q

Non-accelerated filer  Smaller Reporting Company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of November 2, 2016
Class A common stock, \$0.00001 par value	30,415,653
Class B common stock, \$0.00001 par value	89,005,471

---

Table of Contents

TAYLOR MORRISON HOME CORPORATION  
TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements of Taylor Morrison Home Corporation (Unaudited)</u>	<u>2</u>
<u>Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015</u>	<u>2</u>
<u>Condensed Consolidated Statements of Operations for the three and nine month periods ended September 30, 2016 and 2015</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the three and nine month periods ended September 30, 2016 and 2015</u>	<u>5</u>
<u>Condensed Consolidated Statement of Stockholders' Equity for the nine month period ended September 30, 2016</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows for the nine month period ended September 30, 2016 and 2015</u>	<u>7</u>
<u>Notes to the Unaudited Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>43</u>
<u>Item 4. Controls and Procedures</u>	<u>44</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>45</u>
<u>Item 1A. Risk Factors</u>	<u>45</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>45</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>45</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>45</u>
<u>Item 5. Other Information</u>	<u>46</u>
<u>Item 6. Exhibits</u>	<u>46</u>
<u>SIGNATURES</u>	<u>47</u>



Table of Contents

## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

TAYLOR MORRISON HOME CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts, unaudited)

	September 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$ 160,519	\$ 126,188
Restricted cash	1,320	1,280
Real estate inventory:		
Owned inventory	3,286,685	3,118,866
Real estate not owned under option agreements	612	7,921
Total real estate inventory	3,287,297	3,126,787
Land deposits	35,091	34,113
Mortgage loans held for sale	118,997	201,733
Prepaid expenses and other assets, net	75,111	75,295
Other receivables, net	129,165	120,729
Investments in unconsolidated entities	151,606	128,448
Deferred tax assets, net	234,457	233,488
Property and equipment, net	6,320	7,387
Intangible assets, net	3,454	4,248
Goodwill	66,198	57,698
Total assets	\$ 4,269,535	\$ 4,117,394
Liabilities		
Accounts payable	\$ 145,944	\$ 151,861
Accrued expenses and other liabilities	193,763	191,452
Income taxes payable	26,673	37,792
Customer deposits	137,561	92,319
Senior notes, net	1,236,908	1,235,157
Loans payable and other borrowings	142,786	134,824
Revolving credit facility borrowings, net	211,084	109,947
Mortgage warehouse borrowings	91,166	183,444
Liabilities attributable to real estate not owned under option agreements	612	7,921
Total liabilities	2,186,497	2,144,717
COMMITMENTS AND CONTINGENCIES (Note 18)		
Stockholders' Equity		
Class A common stock, \$0.00001 par value, 400,000,000 shares authorized, 33,269,086 and 33,158,855 shares issued, 30,415,653 and 32,224,421 shares outstanding as of September 30, 2016 and December 31, 2015, respectively	—	—
Class B common stock, \$0.00001 par value, 200,000,000 shares authorized, 89,010,304 and 89,108,569 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	1	1
Preferred stock, \$0.00001 par value, 50,000,000 shares authorized, no shares issued and outstanding as of September 30, 2016 and December 31, 2015	—	—
Additional paid-in capital	379,557	376,898

Edgar Filing: Taylor Morrison Home Corp - Form 10-Q

Treasury stock at cost; 2,853,433 and 934,434 shares as of September 30, 2016 and December 31, 2015, respectively	(43,524	) (14,981	)
Retained earnings	209,332	175,997	
Accumulated other comprehensive loss	(18,115	) (17,997	)
Total stockholders' equity attributable to Taylor Morrison Home Corporation	527,251	519,918	
Non-controlling interests – joint ventures	6,844	6,398	
Non-controlling interests – Principal Equityholders	1,548,943	1,446,361	
Total stockholders' equity	2,083,038	1,972,677	
Total liabilities and stockholders' equity	\$ 4,269,535	\$ 4,117,394	

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements

Table of ContentsTAYLOR MORRISON HOME CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts, unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Home closings revenue, net	\$812,185	\$779,190	\$2,271,154	\$1,955,170
Land closings revenue	27,418	5,782	44,957	22,712
Mortgage operations revenue	13,814	11,316	36,951	28,794
Total revenues	853,417	796,288	2,353,062	2,006,676
Cost of home closings	658,507	635,935	1,852,724	1,594,691
Cost of land closings	8,179	3,919	20,497	13,152
Mortgage operations expenses	7,877	6,962	22,594	18,120
Total cost of revenues	674,563	646,816	1,895,815	1,625,963
Gross margin	178,854	149,472	457,247	380,713
Sales, commissions and other marketing costs	58,277	53,482	165,300	136,724
General and administrative expenses	29,944	25,264	91,078	70,171
Equity in (income)/loss of unconsolidated entities	(1,646)	) 120	(4,734)	) (1,408)
Interest income, net	(47)	) (33)	) (149)	) (165)
Other expense, net	1,935	2,393	8,602	11,625
Loss on extinguishment of debt	—	—	—	33,317
Gain on foreign currency forward	—	—	—	(29,983)
Income from continuing operations before income taxes	90,391	68,246	197,150	160,432
Income tax provision	31,707	22,452	66,698	54,434
Net income from continuing operations	58,684	45,794	130,452	105,998
Discontinued operations:				
Transaction expenses from discontinued operations	—	—	—	(9,043)
Gain on sale of discontinued operations	—	—	—	80,205
Income tax expense from discontinued operations	—	—	—	(14,500)
Net income from discontinued operations	—	—	—	56,662
Net income before allocation to non-controlling interests	58,684	45,794	130,452	162,660
Net income attributable to non-controlling interests — joint ventures	(376)	) (138)	) (856)	) (1,427)
Net income before non-controlling interests — Principal Equityholders	58,308	45,656	129,596	161,233
Net income from continuing operations attributable to non-controlling interests — Principal Equityholders	(43,471)	) (33,312)	) (96,261)	) (76,470)
Net income from discontinued operations attributable to non-controlling interests — Principal Equityholders	—	—	—	(41,381)
Net income available to Taylor Morrison Home Corporation	\$14,837	\$12,344	\$33,335	\$43,382
Earnings per common share — basic:				
Income from continuing operations	\$0.49	\$0.37	\$1.07	\$0.85
Income from discontinued operations — net of tax	\$—	\$—	\$—	\$0.46
Net income available to Taylor Morrison Home Corporation	\$0.49	\$0.37	\$1.07	\$1.31
Earnings per common share — diluted:				
Income from continuing operations	\$0.49	\$0.37	\$1.07	\$0.85
Income from discontinued operations — net of tax	\$—	\$—	\$—	\$0.46
Net income available to Taylor Morrison Home Corporation	\$0.49	\$0.37	\$1.07	\$1.31
Weighted average number of shares of common stock:				
Basic	30,427	33,122	31,300	33,088

Edgar Filing: Taylor Morrison Home Corp - Form 10-Q

Diluted	120,103	122,458	120,870	122,412
---------	---------	---------	---------	---------

3

---



Table of Contents

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements

4

---

Table of Contents

TAYLOR MORRISON HOME CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (In thousands, unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Income before non-controlling interests, net of tax	\$58,684	\$45,794	\$130,452	\$162,660
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments, net of tax	—	(565 )	—	(27,779 )
Post-retirement benefits adjustments, net of tax	—	—	(447 )	1,757
Other comprehensive income (loss), net of tax	—	(565 )	(447 )	(26,022 )
Comprehensive income	58,684	45,229	130,005	136,638
Comprehensive income attributable to non-controlling interests — joint ventures	(376 )	(138 )	(856 )	(1,427 )
Comprehensive income attributable to non-controlling interests — Principal Equityholders	(43,471 )	(32,861 )	(95,932 )	(98,878 )
Comprehensive income available to Taylor Morrison Home Corporation	\$14,837	\$12,230	\$33,217	\$36,333

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents

TAYLOR MORRISON HOME CORPORATION  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
(In thousands, except share data, unaudited)

	Common Stock		Additional		Treasury Stock	Stockholders' Equity				
	Class A	Class B	Paid-in	Capital		Retained	Accumulated	Non-controlling	Non-controlling	Non-controlling
	Shares	Amount	Amount	Amount	Shares	Amount	Earnings	Other Comprehensive Income (Loss)	Interest - Venture	Interest - Private Equityholders
Balance – December 31, 2015	32,224,421	\$-89,108,569	\$1	\$376,898	934,434	\$(14,981)	\$175,997	\$(17,997)	\$6,398	\$1,446,361
Net income	—	—	—	—	—	—	33,335	—	856	96,261
Other comprehensive loss	—	—	—	—	—	—	—	(118)	—	(329)
Exchange of New TMM Units and corresponding number of Class B Common Stock	96,444	—(96,444)	—	—	—	—	—	—	—	—
Cancellation of forfeited New TMM Units and corresponding number of Class B Common Stock	—	—(1,821)	—	—	—	—	—	—	—	—
Issuance of restricted stock units	13,787	—	—	—	—	—	—	—	—	—
Repurchase of common stock	(1,918,999)	—	—	—	1,918,999	(28,543)	—	—	—	—
Share based compensation	—	—	—	2,309	—	—	—	—	—	6,650
Contributions to/(Distributions from) non-controlling interests of consolidated joint ventures	—	—	—	350	—	—	—	—	(410)	—
	30,415,653	\$-89,010,304	\$1	\$379,557	2,853,433	\$(43,524)	\$209,332	\$(18,115)	\$6,844	\$1,548,943

Balance –  
September 30,  
2016

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

6

---

Table of Contents

TAYLOR MORRISON HOME CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands, unaudited)

	Nine Months Ended September 30,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income before allocation to non-controlling interests	\$ 130,452	\$ 162,660
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in income of unconsolidated entities	(4,734 )	(1,408 )
Stock compensation expense	8,959	5,723
Loss on extinguishment of debt	—	33,317
Distributions of earnings from unconsolidated entities	2,538	1,879
Depreciation and amortization	3,000	2,927
Debt issuance costs amortization	2,888	3,486
Net income from discontinued operations	—	(56,662 )
Gain on foreign currency forward	—	(29,983 )
Contingent consideration	3,520	7,916
Deferred income taxes	(969 )	5,849
Changes in operating assets and liabilities:		
Real estate inventory and land deposits	(103,758 )	(430,964 )
Mortgages held for sale, prepaid expenses and other assets	76,281	2,086
Customer deposits	44,780	29,728
Accounts payable, accrued expenses and other liabilities	(9,415 )	11,642
Income taxes payable	(11,119 )	(19,909 )
Net cash provided by (used in) operating activities	142,423	(271,713 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(934 )	(1,753 )
Payments for business acquisitions	(52,819 )	(220,899 )
Distribution from unconsolidated entities	3,546	6,857
Change in restricted cash	(40 )	30
Investments of capital into unconsolidated entities	(24,509 )	(23,397 )
Proceeds from sale of discontinued operations	—	268,853
Proceeds from settlement of foreign currency forward	—	29,983
Net cash (used in) provided by investing activities	(74,756 )	59,674
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase in loans payable and other borrowings	55,720	33,081
Repayments of loans payable and other borrowings	(65,075 )	(35,008 )
Borrowings on revolving credit facility	255,000	325,000
Payments on revolving credit facility	(155,000 )	(135,000 )
Borrowings on mortgage warehouse	782,001	595,451
Repayment on mortgage warehouse	(874,279 )	(682,073 )
Proceeds from the issuance of senior notes	—	350,000
Repayments on senior notes	—	(513,608 )
Repurchase of common stock	(28,543 )	—
Payment of deferred financing costs	—	(4,538 )
Payment of contingent consideration	(3,100 )	(3,050 )
Distributions to non-controlling interests of consolidated joint ventures, net	(60 )	(1,651 )

Edgar Filing: Taylor Morrison Home Corp - Form 10-Q

Net cash used in financing activities	(33,336 )	(71,396 )
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	(20,491 )
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	\$34,331	\$(303,926)
CASH AND CASH EQUIVALENTS — Beginning of period <sup>(1)</sup>	126,188	462,205
CASH AND CASH EQUIVALENTS — End of period	\$160,519	\$158,279
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income taxes paid, net	\$(78,786 )	\$(81,664 )
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Change in loans payable issued to sellers in connection with land purchase contracts	\$55,720	\$11,943
Original accrual of contingent consideration for business combinations	\$380	\$3,200
Non-cash portion of loss on debt extinguishment	\$—	\$5,102

<sup>(1)</sup> Cash and cash equivalents shown here includes the cash of Monarch Corporation. At December 31, 2014, cash held at Monarch was \$227,988.

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents

TAYLOR MORRISON HOME CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS

Organization and Description of the Business - Taylor Morrison Home Corporation (“TMHC”) and its subsidiaries (collectively, referred to herein as “we,” “our,” the “Company” and “us”), through its divisions and segments, owns and operates a residential homebuilding business and is a developer of lifestyle communities. We currently operate in Arizona, California, Colorado, Florida, Georgia, Illinois, North Carolina and Texas. Our Company serves a wide array of consumer groups from coast to coast, including first time, move-up, luxury and 55 plus buyers. Our homebuilding business operates under our Taylor Morrison and Darling Homes brands. Our business has multiple homebuilding operating divisions, and a mortgage operations and title services division, which are organized into multiple reportable segments. The communities in our homebuilding business offer single family attached and detached homes. We are the general contractors for all real estate projects and retain subcontractors for home construction and site development. Our Mortgage Operations reportable segment provides mortgage services to customers through our wholly owned mortgage subsidiary, Taylor Morrison Home Funding, LLC (“TMHF”), and title services through our wholly owned title services subsidiary, Inspired Title Services, LLC (“Inspired Title”).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation — The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Consolidated Financial Statements and accompanying notes included in our 2015 Annual Report on Form 10-K. In the opinion of management, the accompanying Condensed Consolidated Financial Statements include all normal and recurring adjustments that are considered necessary for the fair presentation of our results for the interim periods presented. Results for interim periods are not necessarily indicative of results to be expected for a full fiscal year.

Unless otherwise stated, amounts are shown in U.S. dollars. Assets and liabilities recorded in foreign currencies are translated at the exchange rate on the balance sheet date, and revenues and expenses are translated at average rates of exchange prevailing during the period. Translation adjustments resulting from this process are recorded to accumulated other comprehensive loss in the Condensed Consolidated Balance Sheets and Condensed Consolidated Statement of Stockholders’ Equity.

Discontinued Operations – As a result of our decision in December 2014 to divest of Monarch Corporation (“Monarch”), our former Canadian operating segment, the operating results and financial position of the Monarch business are presented as discontinued operations for the nine months ended September 30, 2015.

Non-controlling interests – In connection with a series of transactions consummated at the time of the Company’s IPO (the “Reorganization Transactions”), the Company became the sole owner of the general partner of TMM Holdings II Limited Partnership (“New TMM”). As the general partner of New TMM, the Company exercises exclusive and complete control over New TMM. Consequently, the Company consolidates New TMM and records a non-controlling interest in the Condensed Consolidated Balance Sheets for the economic interests in New TMM, that are directly or indirectly held by a consortium comprised of affiliates of TPG Global, LLC (the “TPG Entities” or “TPG”), investment funds managed by Oaktree Capital Management, L.P. (“Oaktree”) or their respective subsidiaries (the “Oaktree Entities”), and affiliates of JH Investments, Inc. (“JH” and together with the TPG Entities and Oaktree Entities, the “Principal Equityholders”) or by members of management and the Board of Directors.

Joint Ventures – We consolidate certain joint ventures in accordance with Accounting Standards Codification (“ASC”) Topic 810, “Consolidation.” The income from the percentage of the joint venture not owned by us is presented as “Net

income attributable to non-controlling interests - joint ventures” on the Condensed Consolidated Statements of Operations.

Reclassifications – Prior period amounts related to debt issuance costs have been reclassified to conform with current period financial statement presentation as a result of adopting Accounting Standards Update (“ASU”) 2015-03, Simplifying the Presentation of Debt Issuance Costs. Approximately \$19.9 million of such costs as of December 31, 2015 have been reclassified from prepaid expenses and other assets, net to their respective debt liability.



## Table of Contents

**Business Combinations** — Acquisitions are accounted for in accordance with ASC Topic 805-10, Business Combinations. In connection with our acquisitions, we determined we obtained control of a business and its inputs, processes and outputs in exchange for cash and other consideration. All material assets and liabilities, including contingent consideration, were measured and recognized at fair value as of the date of the acquisition to reflect the purchase price paid, which resulted in goodwill for each transaction. Refer to Note 3 - Business Combinations for further information regarding the purchase price allocation and related acquisition accounting.

**Use of Estimates** — The preparation of financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in the Condensed Consolidated Financial Statements and accompanying notes. Significant estimates include real estate development costs to complete, valuation of real estate, valuation of acquired assets, valuation of goodwill, valuation of equity awards, valuation allowance on deferred tax assets and reserves for warranty and self-insured risks. Actual results could differ from those estimates.

**Non-controlling Interests – Principal Equityholders** — Immediately prior to our IPO, as part of the Reorganization Transactions, the existing holders of limited partnership interests of TMM Holdings Limited Partnership (“TMM Holdings”) exchanged their limited partnership interests for limited partnership interests of New TMM (“New TMM Units”). For each New TMM Unit received in the exchange, the holders of New TMM Units also received a corresponding number of shares of our Class B Common Stock (the “Class B Common Stock”). Our Class B Common Stock has voting rights but no economic rights. One share of Class B Common Stock, together with one New TMM Unit, is exchangeable into one share of our Class A Common Stock in accordance with the terms of the Exchange Agreement, dated as of April 9, 2013, among the Company, New TMM and the holders of Class B Common Stock and New TMM Units.

**Real Estate Inventory** — Inventory consists of raw land, land under development, land held for future development, land held for sale, homes under construction, completed homes and model homes. Inventory is carried at cost, less impairment, if applicable. In addition to direct carrying costs, we also capitalize interest, real estate taxes, and related development costs that benefit the entire community, such as field construction supervision and direct overhead. Home construction costs are accumulated and charged to cost of sales at home closing using the specific identification method. All other overhead costs are allocated to closed homes using the relative sales value method. These costs are capitalized to inventory from the point development begins to the point construction is completed. Changes in estimated costs to be incurred in a community (cost to complete) are generally allocated to the remaining homes on a prospective basis. For those communities that have been temporarily closed or where development has been discontinued, costs are expensed as incurred until operations resume.

We review our real estate inventory for indicators of impairment by community on a quarterly basis. In conducting our impairment analysis, we evaluate the margins on homes that have been delivered, margins on homes under sales contracts in backlog, projected margins with regard to future home sales over the life of the community, projected margins with regard to future land sales and the estimated fair value of the land itself. If indicators of impairment are present for a community, we perform an additional analysis to determine if the carrying value of the assets in that community exceeds the undiscounted cash flows estimated to be generated by those assets. If the carrying value of the assets does exceed their estimated undiscounted cash flows, the assets are deemed to be impaired and are recorded at fair value as of the assessment date. An impairment charge is taken in the period with a charge to cost of home closings. For the three and nine months ended September 30, 2016 and 2015, no impairment charges were recorded.

In certain cases, we may elect to cease development and/or marketing of an existing community if we believe the economic performance of the community would be maximized by deferring development for a period of time to allow for market conditions to improve. The decision may be based on financial and/or operational metrics as determined by management. If we decide to cease developing a project, we will evaluate the project for impairment and then cease future development and marketing activity until such a time when we believe that market conditions have improved

and economic performance can be maximized.

In the ordinary course of business, we enter into various specific performance agreements to acquire lots. Real estate not owned under these agreements is consolidated into real estate inventory with a corresponding liability in liabilities attributable to real estate not owned under option agreements in the Condensed Consolidated Balance Sheets.

Land Deposits — We provide deposits related to land options and land purchase contracts, which are capitalized when paid and classified as land deposits until the associated property is purchased. To the extent the deposits are non-refundable, they are charged to expense if the land acquisition process is terminated or no longer determined probable. We review the likelihood of the acquisition of contracted lots in conjunction with our periodic real estate inventory impairment analysis. Non-refundable deposits are recorded as real estate inventory in the accompanying Condensed Consolidated Balance Sheets at the time the deposit is applied to the acquisition price of the land based on the terms of the underlying agreements.

9

---

Table of Contents

Investments in Consolidated and Unconsolidated Entities

Consolidated Joint Ventures — In the ordinary course of business, we participate in strategic land development and homebuilding joint ventures with third parties. The use of these entities, in some instances, enables us to acquire land to which we could not otherwise obtain access, or could not obtain access on terms that are as favorable. Some of these joint ventures develop land for the sole use of the venture participants and others develop land for sale to the venture participants and to unrelated builders. In addition, we are involved with third parties who are involved in land development and homebuilding activities, including home sales. We review such contracts to determine whether they are a variable interest entity ("VIE"). In accordance with ASC Topic 810, "Consolidation," for each VIE, we assess whether we are the primary beneficiary by first determining if we have the ability to control the activities of the VIE that most significantly affect its economic performance. Such activities include, but are not limited to, 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 us; and the ability to change or amend the existing option contract with the VIE. If we are not able to control such activities, we are not considered the primary beneficiary of the VIE. If we do have the ability to control such activities, we continue our analysis to determine if we are expected to absorb a potentially significant amount of the VIE's losses or, if no party absorbs the majority of such losses, if we will potentially benefit from a significant amount of the VIE's expected returns. For these entities in which we are expected to absorb the losses or benefits, we consolidate the results in the accompanying Condensed Consolidated Financial Statements.

Unconsolidated Joint Ventures — We use the equity method of accounting for entities over which we exercise significant influence but do not have a controlling interest over the operating and financial policies of the investee. For unconsolidated entities in which we function as the managing member, we have evaluated the rights held by our joint venture partners and determined that they have substantive participating rights that preclude the presumption of control. For joint ventures accounted for using the equity method, our share of net earnings or losses is included in equity in income/loss of unconsolidated entities when earned and distributions are credited against our investment in the joint venture when received. These joint ventures are recorded in investments in unconsolidated entities on the Condensed Consolidated Balance Sheets.

We evaluate our investments in unconsolidated entities for indicators of impairment quarterly. A series of operating losses of an investee or other factors may indicate that a decrease in value of our investment in the unconsolidated entity has occurred which is other-than-temporary. The amount of impairment recognized is the excess of the investment's carrying amount over its estimated fair value. Additionally, we consider various qualitative factors to determine if a decrease in the value of the investment is other-than-temporary. These factors include age of the venture, stage in its life cycle, intent and ability for us to recover our investment in the entity, financial condition and long-term prospects of the entity, short-term liquidity needs of the unconsolidated entity, trends in the general economic environment of the land, entitlement status of the land held by the unconsolidated entity, overall projected returns on investment, defaults under contracts with third parties (including bank debt), recoverability of the investment through future cash flows and relationships with the other partners. If the Company believes that the decline in the fair value of the investment is temporary, then no impairment is recorded. We did not record any impairment charges for the three and nine months ended September 30, 2016 and 2015, respectively.

Goodwill — The excess of the purchase price of a business acquisition over the net fair value of assets acquired and liabilities assumed is capitalized as goodwill in accordance with ASC Topic 350, "Intangibles — Goodwill and Other" ("ASC 350").

ASC 350 requires that goodwill and intangible assets that do not have finite lives not be amortized, but rather assessed for impairment at least annually or more frequently if certain impairment indicators are present. We perform our annual impairment test during the fourth quarter or whenever impairment indicators are present.

Stock Based Compensation — We have stock options, performance-based restricted stock units and non-performance based restricted stock units which we account for in accordance with ASC Topic 718-10, “Compensation — Stock Compensation.” The fair value for stock options is measured and estimated on the date of grant using the Black-Scholes option pricing model and recognized evenly over the vesting period of the options. Performance-based restricted stock units are measured using the closing price on the date of grant and expensed using a probability of attainment calculation which determines the likelihood of achieving the performance targets. Non-performance based restricted stock units are time based awards and measured using the closing price on the date of grant and are expensed ratably over the vesting period on a straight-line basis.

Treasury Stock — We account for treasury stock in accordance with ASC Topic 505-30, “Equity - Treasury Stock.” Repurchased shares are reflected as a reduction in Stockholders’ Equity and subsequent sale of repurchased shares are recognized as a change in Equity. When factored into our weighted average calculations for purposes of earnings per share, the number of repurchased shares is based on the trade date.

Revenue Recognition

10

---

Table of Contents

Home closings revenue, net — Home closings revenue is recorded using the completed-contract method of accounting at the time each home is delivered, title and possession are transferred to the buyer, we have no significant continuing involvement with the home, risk of loss has transferred, the buyer has demonstrated sufficient investment in the property, and the receivable, if any, from the homeowner or escrow agent is not subject to future subordination.

We typically grant our homebuyers certain sales incentives, including cash discounts, incentives on options included in the home, option upgrades, and seller-paid financing or closing costs. Incentives and discounts are accounted for as a reduction in the sales price of the home and home closings revenue is shown net of discounts. We also receive rebates from certain vendors and these rebates are accounted for as a reduction to cost of home closings.

Land closings revenue — Revenue from land sales are recognized when title is transferred to the buyer, there is no significant continuing involvement, and the buyer has demonstrated sufficient investment in the property sold. If the buyer has not made an adequate investment in the property, the profit on such sales is deferred until these conditions are met.

Mortgage operations revenue — Loan origination fees (including title fees, points, closing costs) are recognized at the time the related real estate transactions are completed, usually upon the close of escrow. All of the loans TMHF originates are sold to third party investors within a short period of time, on a non-recourse basis. Gains and losses from the sale of mortgages are recognized in accordance with ASC Topic 860-20, “Sales of Financial Assets.” TMHF does not have continuing involvement with the transferred assets, therefore we derecognize the mortgage loans at time of sale, based on the difference between the selling price and carrying value of the related loans upon sale, recording a gain/loss on sale in the period of sale.

Recently Issued Accounting Pronouncements — In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”). ASU 2016-15 provides guidance on how to disclose cash payments and cash receipts relating to eight specific cash flow issues in order to improve consistency among filers. This amendment will be effective for us in our fiscal year beginning January 1, 2018. We are currently evaluating the impact the adoption of ASU 2016-15 will have on our condensed consolidated statement of cash flows.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). ASU 2016-09 is intended to simplify several areas of stock compensation including its tax consequences, liability vs. equity classification, and statement of cash flows presentation. ASU 2016-09 will be effective for us in our fiscal year beginning January 1, 2017. We expect ASU 2016-09 to affect the amount of tax expense and deductions for stock based compensation in 2017 and in future periods, the magnitude of which will be based on the changes in performance awards issued and outstanding, and based on the amount of vested and exercised awards.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”). ASU 2016-02 primarily impacts off-balance sheet operating leases and will require such leases, with the exception of short-term leases, to be recorded on the balance sheet. Lessor accounting is not significantly impacted by the new guidance, however certain updates were made to align lessee and lessor treatment. ASU 2016-02 will be effective for us in our fiscal year beginning January 1, 2019. We do not believe the adoption of ASU 2016-02 will have a material impact on our condensed consolidated financial statements and disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which provides guidance for revenue recognition. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance.

This ASU also supersedes some cost guidance included in ASC Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. The standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. In doing so, entities will generally need to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 has been deferred and will be effective beginning January 1, 2018 and, at that time, we will adopt the new standard under either the full retrospective approach or the modified retrospective approach. We are currently evaluating the method and impact the adoption of ASU 2014-09 will have on our condensed consolidated financial statements and disclosures.

### 3. BUSINESS COMBINATIONS

Table of Contents

On January 8, 2016, we acquired Acadia Homes, an Atlanta based homebuilder, for total consideration of \$83.6 million (including \$19.7 million of seller financing holdbacks and contingent consideration). We acquired JEH Homes, an Atlanta based homebuilder, on April 30, 2015 and three divisions of Orleans Homes in Charlotte, Raleigh and Chicago on July 21, 2015 for combined total consideration of \$233.7 million (including seller financing and contingent consideration). In accordance with ASC Topic 805, Business Combinations, all material assets and liabilities, including contingent consideration were measured and recognized at fair value as of the date of the acquisition to reflect the purchase price paid, which resulted in goodwill for each transaction. Unaudited pro forma results of the business combinations as if they had been acquired on January 1, 2015 have not been provided as they are immaterial to the total Company's consolidated results of operations.

We determined the estimated fair value of real estate inventory on a community-by-community basis primarily using the sales comparison and income approaches. The sales comparison approach was used for all inventory in process. The income approach derives a value using a discounted cash flow for income-producing real property. This approach was used exclusively for finished lots. The income approach using discounted cash flows was also used to value lot option contracts acquired. These estimated cash flows and ultimate valuation are significantly affected by the discount rate, estimates related to expected average selling prices and sales incentives, expected sales paces and cancellation rates, expected land development and construction timelines, and anticipated land development, construction, overhead costs and may vary significantly between communities.

## 2016 Acquisition

For Acadia Homes, the Company performed an allocation of purchase price as of the acquisition date. The following is a summary of the fair value of assets acquired, liabilities assumed, and liabilities created (in thousands):

	Acadia Homes
Acquisition Date	January 8, 2016
Assets acquired	
Real estate inventory	\$76,152
Land deposits	984
Prepaid expenses and other assets	816
Property and equipment	204
Goodwill <sup>(1)</sup>	8,500
Total assets	\$86,656

## Less liabilities assumed

Accrued expenses and other liabilities	\$2,562
Customer deposits	463
Net assets acquired	\$83,631

<sup>(1)</sup> Goodwill is fully deductible for tax purposes. The goodwill was allocated to our East homebuilding segment.

## 2015 Acquisitions

For JEH Homes or the divisions of Orleans Homes, the Company performed an allocation of purchase price as of each acquisition date. The following is a summary of the fair value of assets acquired, liabilities assumed, and liabilities created (in thousands):

Table of Contents

	JEH Homes	Orleans Homes	Total
Acquisition Date	April 30, 2015	July 21, 2015	
Assets Acquired			
Real estate inventory	\$55,559	\$140,602	\$196,161
Land deposits	—	2,236	2,236
Prepaid expenses and other assets	1,301	2,436	3,737
Property and equipment	395	623	1,018
Goodwill <sup>(1)</sup>	9,125	25,198	34,323
Total assets	\$66,380	\$171,095	\$237,475
Less Liabilities Assumed			
Accrued expenses and other liabilities	\$—	\$2,700	\$2,700
Customer deposits	—	1,081	1,081
Net assets acquired	\$66,380	\$167,314	\$233,694

<sup>(1)</sup> Goodwill is fully deductible for tax purposes. We allocated \$27.8 million and \$6.5 million of goodwill to our East and West homebuilding segments, respectively.

**4. EARNINGS PER SHARE**

Basic earnings per common share is computed by dividing net income available to TMHC by the weighted average number of shares of Class A Common Stock outstanding during the period. Diluted earnings per share gives effect to the potential dilution that could occur if all shares of Class B Common Stock and their corresponding New TMM Units were exchanged for shares of Class A Common Stock and if all outstanding equity awards to issue shares of Class A Common Stock were exercised or settled.

The following is a summary of the components of basic and diluted earnings per share (in thousands, except per share amounts):



Table of Contents

	Three Months Ended		Nine Months Ended	
	September 30, 2016	2015	2016	2015
Numerator:				
Net income available to TMHC – basic	\$14,837	\$12,344	\$33,335	\$43,382
Income from discontinued operations, net of tax	—	—	—	56,662
Income from discontinued operations, net of tax attributable to non-controlling interest – Principal Equityholders	—	—	—	(41,381 )
Net income from discontinued operations – basic	\$—	\$—	\$—	\$15,281
Net income from continuing operations – basic	\$14,837	\$12,344	\$33,335	\$28,101
Net income from continuing operations – basic	\$14,837	\$12,344	\$33,335	\$28,101
Net income from continuing operations attributable to non-controlling interest – Principal Equityholders	43,471	33,312	96,261	76,470
Loss fully attributable to public holding company	19	5	191	234
Net income from continuing operations – diluted	\$58,327	\$45,661	\$129,787	\$104,805
Net income from discontinued operations – diluted	\$—	\$—	\$—	\$56,662
Denominator:				
Weighted average shares – basic (Class A)	30,427	33,122	31,300	33,088
Weighted average shares – Principal Equityholders’ non-controlling interest (Class B)	89,053	89,158	89,089	89,188
Restricted stock units	522	178	463	136
Stock Options	101	—	18	—
Weighted average shares – diluted	120,103	122,458	120,870	122,412
Earnings per common share – basic:				
Income from continuing operations	\$0.49	\$0.37	\$1.07	\$0.85
Income from discontinued operations, nets of tax	\$—	\$—	\$—	\$0.46
Net income available to Taylor Morrison Home Corporation	\$0.49	\$0.37	\$1.07	\$1.31
Earnings per common share – diluted:				
Income from continuing operations	\$0.49	\$0.37	\$1.07	\$0.85
Income from discontinued operations, net of tax	\$—	\$—	\$—	\$0.46
Net income available to Taylor Morrison Home Corporation	\$0.49	\$0.37	\$1.07	\$1.31

We excluded a total weighted average of 1,602,509 and 1,531,404 stock options and unvested restricted stock units (“RSUs”) and 1,578,969 and 1,543,056 stock options and unvested RSUs from the calculation of earnings per share for the three and nine months ended September 30, 2016 and 2015, respectively.

The shares of Class B Common Stock have voting rights but do not have economic rights or rights to dividends or distributions on liquidation and therefore are not participating securities. Accordingly, Class B Common Stock is not included in basic earnings per share.

#### 5. DISCONTINUED OPERATIONS

In connection with the decision to sell Monarch in December 2014, which closed in January 2015, the operating results of the Monarch business are classified as discontinued operations – net of applicable taxes in the Condensed Consolidated Statements of Operations for the nine months ended September 30, 2015.

No revenues or expenses related to the operations of Monarch were recorded in 2015; however, the recorded activity for the nine months ended September 30, 2015 consists of post-closing transaction expenses, including administrative costs, legal fees, and stock based compensation charges. The gain on sale of discontinued operations was determined using the purchase price of Monarch, less related costs and taxes. There were no assets and liabilities of discontinued operations at September 30, 2016 and December 31, 2015. For the nine months ended September 30, 2016, there was no activity recorded related to Monarch or its operations.

6. DERIVATIVE FINANCIAL INSTRUMENT

14

---

Table of Contents

In December 2014, we entered into a derivative financial instrument in the form of a foreign currency forward. The derivative financial instrument hedged our exposure to the Canadian dollar in conjunction with the disposition of the Monarch business. The final settlement of the derivative financial instrument occurred on January 30, 2015, and a gain in the amount of \$30.0 million was recorded to gain on foreign currency forward in the Condensed Consolidated Statements of Operations for the nine months ended September 30, 2015. There was no activity related to derivative financial instruments for the three and nine months ended September 30, 2016.

**7. REAL ESTATE INVENTORY AND LAND DEPOSITS**

Inventory consists of the following (in thousands):

	As of	
	September 30, 2016	December 31, 2015
Real estate developed and under development	\$2,169,321	\$2,167,771
Real estate held for development or held for sale <sup>(1)</sup>	202,390	173,448
Operating communities <sup>(2)</sup>	803,562	672,499
Capitalized interest	111,412	105,148
Total owned inventory	3,286,685	3,118,866
Real estate not owned under option agreements	612	7,921
Total real estate inventory	\$3,287,297	\$3,126,787

<sup>(1)</sup> Real estate held for development or held for sale includes properties which are not in active production. This includes raw land recently purchased or awaiting entitlement, future phases of current projects that will be developed as prior phases sell out and long-term strategic assets.

<sup>(2)</sup> Operating communities consists of all vertical construction costs relating to homes in progress and completed homes for all active production of inventory.

The development status of our land inventory is as follows (dollars in thousands):

	As of		As of	
	September 30, 2016		December 31, 2015	
	Owned	Book Value of Land and Development	Owned	Book Value of Land and Development
Raw	7,942	\$ 417,049	8,300	\$ 378,081
Partially developed	7,604	475,397	8,904	645,276
Finished	12,594	1,468,831	12,294	1,305,697
Long-term strategic assets	1,600	10,434	3,105	12,165
Total	29,740	\$ 2,371,711	32,603	\$ 2,341,219

**Land Deposits** — We provide deposits related to land options and land purchase contracts, which are capitalized when paid and classified as land deposits until the associated property is purchased.

As of September 30, 2016 and December 31, 2015, we had the right to purchase 8,581 and 8,888 lots under land option purchase contracts, respectively, for an aggregate purchase price of \$720.5 million and \$710.6 million as of September 30, 2016 and December 31, 2015, respectively. We do not have title to the property and the creditors generally have no recourse against the Company. As of September 30, 2016 and December 31, 2015, our exposure to loss related to our option contracts with third parties and unconsolidated entities consist of non-refundable option deposits totaling \$35.1 million and \$34.1 million, respectively, in land deposits related to land options and land purchase contracts.

**Capitalized Interest** — Interest capitalized, incurred and amortized is as follows (in thousands):



Table of Contents

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Interest capitalized - beginning of period	\$ 111,063	\$ 106,470	\$ 105,148	\$ 94,880
Interest incurred	21,851	22,401	66,296	70,708
Interest amortized to cost of home closings	(21,502 )	(21,886 )	(60,032 )	(58,603 )
Interest capitalized - end of period	\$ 111,412	\$ 106,985	\$ 111,412	\$ 106,985

**8. INVESTMENTS IN UNCONSOLIDATED ENTITIES**

We participate in a number of joint ventures with related and unrelated third parties, with ownership interests up to 50.0%. These entities are generally involved in real estate development, homebuilding and mortgage lending activities.

Summarized, unaudited combined financial information of unconsolidated entities that are accounted for by the equity method is as follows (in thousands):

	As of	
	September	December
	30,	31,
	2016	2015
Assets:		
Real estate inventory	\$ 609,133	\$ 586,359
Other assets	169,517	119,781
Total assets	\$ 778,650	\$ 706,140
Liabilities and owners' equity:		
Debt	\$ 288,470	\$ 273,769
Other liabilities	21,978	11,239
Total liabilities	310,448	285,008
Owners' equity:		
TMHC	151,606	128,448
Others	316,596	292,684
Total owners' equity	468,202	421,132
Total liabilities and owners' equity	\$ 778,650	\$ 706,140

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenues	\$ 45,219	\$ 2,206	\$ 94,881	\$ 19,430
Costs and expenses	(38,618 )	(2,242 )	(78,838 )	(15,980 )
Income of unconsolidated entities	\$ 6,601	\$ (36 )	\$ 16,043	\$ 3,450
TMHC's share in income/(loss) of unconsolidated entities	\$ 1,646	\$ (120 )	\$ 4,734	\$ 1,408
Distributions from unconsolidated entities	\$ 2,755	\$ 442	\$ 6,084	\$ 8,736

We have investments in a number of joint ventures with related and unrelated parties to develop land and to develop housing communities, including for-sale residential homes. Some of these joint ventures develop land for the sole use of the joint venture participants, including us, and others develop land for sale to the joint venture participants and to unrelated builders. Our share of the joint venture profit relating to lots we purchase from the joint ventures is deferred until homes are delivered by us and title passes to a homebuyer.

**9. ACCRUED EXPENSES AND OTHER LIABILITIES**

Accrued expenses and other liabilities consist of the following (in thousands):

16

---

Table of Contents

	As of September 30, 2016	As of December 31, 2015
Real estate development costs to complete	\$ 14,502	\$ 21,325
Compensation and employee benefits	48,733	47,674
Self-insurance and warranty reserves	46,481	43,098
Interest payable	24,904	18,621
Property and sales taxes payable	14,373	15,233
Other accruals	44,770	45,501
Total accrued expenses and other liabilities	\$ 193,763	\$ 191,452

Self-Insurance and Warranty Reserves – We accrue for the expected costs associated with the limited one year warranty, deductibles and self-insured amounts under our various insurance policies within Beneva Indemnity Company ("Beneva") a wholly owned subsidiary. A summary of the changes in our reserves are as follows (in thousands):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Reserve - beginning of period	\$44,342	\$42,589	\$43,098	\$44,595
Additions to reserves	8,902	5,629	19,685	13,143
Costs and claims incurred	(5,173 )	(5,032 )	(17,720 )	(16,482 )
Change in estimates to pre-existing reserves	(1,590 )	737	1,418	2,667
Reserve - end of period	\$46,481	\$43,923	\$46,481	\$43,923

## 10. DEBT

Total debt consists of the following (in thousands):

	As of September 30, 2016			December 31, 2015		
	Principal	Unamortized Debt Issuance Costs	Carrying Value	Principal	Unamortized Debt Issuance Costs	Carrying Value
5.25% Senior Notes due 2021, unsecured	\$550,000	\$ 5,389	\$544,611	\$550,000	\$ 6,287	\$543,713
5.875% Senior Notes due 2023, unsecured	350,000	3,711	346,289	350,000	4,160	345,840
5.625% Senior Notes due 2024, unsecured	350,000	3,992	346,008	350,000	4,396	345,604
Senior Notes subtotal	1,250,000	13,092	1,236,908	1,250,000	14,843	1,235,157
Loans payable and other borrowings	142,786	—	142,786	134,824	—	134,824
Revolving Credit Facility	215,000	3,916	211,084	115,000	5,053	109,947
Mortgage warehouse borrowings	91,166	—	91,166	183,444	—	183,444
Total Senior Notes and bank financing	\$1,698,952	\$ 17,008	\$1,681,944	\$1,683,268	\$ 19,896	\$1,663,372

## 2021 Senior Notes

On April 16, 2013, we issued \$550.0 million aggregate principal amount of 5.25% Senior Notes due 2021 (the "2021 Senior Notes").

Edgar Filing: Taylor Morrison Home Corp - Form 10-Q

The 2021 Senior Notes mature on April 15, 2021. The 2021 Senior Notes are guaranteed by TMM Holdings, Taylor Morrison Holdings, Inc., Taylor Morrison Communities II, Inc. and their homebuilding subsidiaries (collectively, the “Guarantors”), which are all subsidiaries directly or indirectly of TMHC. The 2021 Senior Notes and the related guarantees are senior unsecured obligations and are not subject to registration rights. The indenture for the 2021 Senior Notes contains covenants that limit (i) the making of investments, (ii) the payment of dividends and the redemption of equity and junior debt, (iii) the

17

---



Table of Contents

incurrence of additional indebtedness, (iv) asset dispositions, (v) mergers and similar corporate transactions, (vi) the incurrence of liens, (vii) the incurrence of prohibitions on payments and asset transfers among the issuers and restricted subsidiaries and (viii) transactions with affiliates, among others. The indenture governing the 2021 Senior Notes contains customary events of default. If we do not apply the net cash proceeds of certain asset sales within specified deadlines, we will be required to offer to repurchase the 2021 Senior Notes at par (plus accrued and unpaid interest) with such proceeds. We are also required to offer to repurchase the 2021 Senior Notes at a price equal to 101% of their aggregate principal amount (plus accrued and unpaid interest) upon certain change of control events.

There are no financial maintenance covenants for the 2021 Senior Notes.

2023 Senior Notes and Redemption of 2020 Senior Notes

On April 16, 2015, we issued \$350.0 million aggregate principal amount of 5.875% Senior Notes due 2023 (the “2023 Senior Notes”). The 2023 Senior Notes and the related guarantees are senior unsecured obligations and are not subject to registration rights. The net proceeds of the offering, together with cash on hand, were used to redeem the entire remaining principal amount of 7.75% Senior Notes due 2020 (the “2020 Senior Notes”) on May 1, 2015, at a redemption price of 105.813% of their aggregate principal amount, plus accrued and unpaid interest thereon to, but not including, the date of redemption. As a result of the redemption of the 2020 Senior Notes, we recorded a loss on extinguishment of debt of \$33.3 million during the second quarter of 2015, which included the payment of the redemption premium and write-off of net unamortized deferred financing fees.

The 2023 Senior Notes mature on April 15, 2023. The 2023 Senior Notes are guaranteed by the same Guarantors that guarantee the 2021 Senior Notes. The indenture governing the 2023 Senior Notes contains covenants that limit our ability to incur debt secured by liens and enter into certain sale and leaseback transactions. The indenture governing the 2023 Senior Notes contains events of default that are similar to those contained in the indenture governing the 2021 Senior Notes. The change of control provisions in the indenture governing the 2023 Senior Notes are similar to those contained in the indenture governing the 2021 Senior Notes, but a credit rating downgrade must occur in connection with the change of control before the repurchase offer requirement is triggered for the 2023 Senior Notes.

Prior to January 15, 2023, the 2023 Senior Notes are redeemable at a price equal to 100% plus a “make-whole” premium for payments through January 15, 2023 (plus accrued and unpaid interest). Beginning January 15, 2023, the 2023 Senior Notes are redeemable at par (plus accrued and unpaid interest).

There are no financial maintenance covenants for the 2023 Senior Notes.

2024 Senior Notes

On March 5, 2014, we issued \$350.0 million aggregate principal amount of 5.625% Senior Notes due 2024 (the “2024 Senior Notes”). The net proceeds from the issuance of the 2024 Senior Notes were used to repay the outstanding balance under the Revolving Credit Facility and for general corporate purposes.

The 2024 Senior Notes mature on March 1, 2024. The 2024 Senior Notes are guaranteed by the same Guarantors that guarantee the 2021 and 2023 Senior Notes. The 2024 Senior Notes and the related guarantees are senior unsecured obligations and are not subject to registration rights. The indenture governing the 2024 Senior Notes contains covenants that limit our ability to incur debt secured by liens and enter into certain sale and leaseback transactions similar to the 2023 Senior Notes. The indenture governing the 2024 Senior Notes contains events of default that are similar to those contained in the indenture governing the 2021 and 2023 Senior Notes. The change of control provisions in the indenture governing the 2024 Senior Notes are similar to those contained in the indenture governing the 2023 Senior Notes.

## Edgar Filing: Taylor Morrison Home Corp - Form 10-Q

Prior to December 1, 2023, the 2024 Senior Notes are redeemable at a price equal to 100% plus a “make-whole” premium for payments through December 1, 2023 (plus accrued and unpaid interest). Beginning on December 1, 2023, the 2024 Senior Notes are redeemable at par (plus accrued and unpaid interest).

There are no financial maintenance covenants for the 2024 Senior Notes.

### \$500.0 Million Revolving Credit Facility

Our \$500.0 million Revolving Credit Facility matures on April 12, 2019. The Revolving Credit Facility is guaranteed by the same Guarantors that guarantee the 2021, 2023 and 2024 Senior Notes.

Table of Contents

The Revolving Credit Facility contains certain “springing” financial covenants, requiring us and our subsidiaries to comply with a maximum debt to capitalization ratio of not more than 0.60 to 1.00 and a minimum consolidated tangible net worth level of at least \$1.5 billion. The financial covenants would be in effect for any fiscal quarter during which any (a) loans under the Revolving Credit Facility are outstanding during the last day of such fiscal quarter or on more than five separate days during such fiscal quarter or (b) undrawn letters of credit (except to the extent cash collateralized) issued under the Revolving Credit Facility in an aggregate amount greater than \$40.0 million or unreimbursed letters of credit issued under the Revolving Credit Facility are outstanding on the last day of such fiscal quarter or for more than five consecutive days during such fiscal quarter. For purposes of determining compliance with the financial covenants for any fiscal quarter, the Revolving Credit Facility provides that we may exercise an equity cure by issuing certain permitted securities for cash or otherwise recording cash contributions to our capital that will, upon the contribution of such cash to the borrower, be included in the calculation of consolidated tangible net worth and consolidated total capitalization. The equity cure right is exercisable up to twice in any period of four consecutive fiscal quarters and up to five times overall.

The Revolving Credit Facility contains certain restrictive covenants including limitations on incurrence of liens, dividends and other distributions, asset dispositions and investments in entities that are not guarantors, limitations on prepayment of subordinated indebtedness and limitations on fundamental changes. The Revolving Credit Facility contains customary events of default, subject to applicable grace periods, including for nonpayment of principal, interest or other amounts, violation of covenants (including financial covenants, subject to the exercise of an equity cure), incorrectness of representations and warranties in any material respect, cross default and cross acceleration, bankruptcy, material monetary judgments, ERISA events with material adverse effect, actual or asserted invalidity of material guarantees and change of control. As of September 30, 2016, we were in compliance with all of the covenants under the Revolving Credit Facility.

## Mortgage Warehouse Borrowings

The following is a summary of our mortgage warehouse borrowings (in thousands):

As of September 30, 2016					
Facility	Amount Drawn	Facility Amount	Interest Rate	Expiration Date	Collateral <sup>(1)</sup>
Flagstar	\$24,559	\$ 55,000	LIBOR + 2.5%	30 days written notice	Mortgage Loans
Comerica	19,183	50,000	LIBOR + 2.25%	November 16, 2016	Mortgage Loans
J.P. Morgan	47,424	100,000	LIBOR + 2.375%	September 25, 2017	Mortgage Loans and Pledged Cash
Total	\$91,166	\$ 205,000			
As of December 31, 2015					
Facility	Amount Drawn	Facility Amount	Interest Rate	Expiration Date	Collateral <sup>(1)</sup>
Flagstar	\$63,210	\$ 75,000	LIBOR + 2.5%	30 days written notice	Mortgage Loans
Comerica	18,009	50,000	LIBOR + 2.25%	November 16, 2016	Mortgage Loans
J.P. Morgan	102,225	120,000	(2)	September 26, 2016	Mortgage Loans and Pledged Cash
Total	\$183,444	\$ 245,000			

<sup>(1)</sup> The mortgage warehouse borrowings outstanding as of September 30, 2016 and December 31, 2015, are collateralized by a) \$119.0 million and \$201.7 million, respectively, of mortgage loans held for sale, which comprise the balance of mortgage loans held for sale and b) \$1.3 million, for both periods presented, which are included in restricted cash in the accompanying Condensed Consolidated Balance Sheets.

<sup>(2)</sup> Through the date of expiration of September 28, 2015, interest under the J.P. Morgan agreement ranged from 2.50% plus 30-day LIBOR to 2.875% plus 30-day LIBOR or 0.25% (whichever was greater). The agreement was renewed in September 2015 setting the interest rate at 2.375% plus 30-day LIBOR.

Loans Payable and Other Borrowings

19

---

Table of Contents

Loans payable and other borrowings as of September 30, 2016 and December 31, 2015 consist of project-level debt due to various land sellers and seller financing notes from current and prior year acquisitions. Project-level debt is generally secured by the land that was acquired and the principal payments generally coincide with corresponding project lot sales or a principal reduction schedule. Loans payable bear interest at rates that ranged from 0% to 8% at September 30, 2016 and December 31, 2015. We impute interest for loans with no stated interest rates. The weighted average interest rate on \$109.6 million of the loans as of September 30, 2016 was 4.8% per annum, and \$33.2 million of the loans were non-interest bearing.

## 11. FAIR VALUE DISCLOSURES

We have adopted ASC Topic 820, Fair Value Measurements, for valuation of financial instruments. ASC Topic 820 provides a framework for measuring fair value under GAAP, expands disclosures about fair value measurements, and establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of the fair value hierarchy are summarized as follows:

Level 1 — Fair value is based on quoted prices for identical assets or liabilities in active markets.

Level 2 — Fair value is determined using quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are not active or are directly or indirectly observable.

Level 3 — Fair value is determined using one or more significant inputs that are unobservable in active markets at the measurement date, such as a pricing model, discounted cash flow, or similar technique.

The fair value of our mortgage loans held for sale is derived from negotiated rates with partner lending institutions. The fair value of our mortgage warehouse borrowings and loans payable and other borrowings approximate carrying value due to their short term nature and variable interest rate terms. The fair value of our Senior Notes is derived from quoted market prices by independent dealers in markets that are not active. The fair value of the Revolving Credit Facility is the outstanding borrowing amount, gross of debt issuance cost, due to its short-term nature and variable interest rates. The fair value of the contingent consideration liability related to previous acquisitions was estimated by discounting to present value the contingent payments expected to be made for each acquisition based on a probability-weighted scenario approach. As the measurement of the contingent consideration is based primarily on significant inputs not observable in the market, it represents a Level 3 measurement. The carrying value and fair value of our financial instruments are as follows (in thousands):

Description:	Level in Fair Value Hierarchy	September 30, 2016		December 31, 2015	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Mortgage loans held for sale	2	\$ 118,997	\$ 118,997	\$ 201,733	\$ 201,733
Mortgage warehouse borrowings	2	91,166	91,166	183,444	183,444
Loans payable and other borrowings	2	142,786	142,786	134,824	134,824
5.25% Senior Notes due 2021 <sup>(1)</sup>	2	544,611	567,875	543,713	552,750
5.875% Senior Notes due 2023 <sup>(1)</sup>	2	346,289	366,625	345,840	346,500
5.625% Senior Notes due 2024 <sup>(1)</sup>	2	346,008	360,500	345,604	336,000
Revolving Credit Facility <sup>(1)</sup>	2	211,084	215,000	109,947	115,000
Contingent consideration liability	3	16,882	16,882	20,082	20,082

<sup>(1)</sup> Carrying value for Senior Notes and the Revolving Credit Facility, as presented, includes unamortized debt issuance costs. Debt issuance costs are not factored into the fair value calculation for the Senior Notes.

12. INCOME TAXES

The effective tax rate for the three and nine months ended September 30, 2016 and September 30, 2015 was based on the federal statutory income tax rates, affected by state income taxes, changes in deferred tax assets, changes in valuation allowances, and certain deductions and credits relating to homebuilding activities.

As of September 30, 2016, cumulative gross unrecognized tax benefits were \$7.3 million, and all unrecognized tax benefits, if recognized, would favorably affect the effective tax rate. As of December 31, 2015, cumulative gross unrecognized tax benefits

Table of Contents

were \$7.0 million. These amounts are included in deferred tax assets and income taxes payable in the accompanying Condensed Consolidated Balance Sheets at September 30, 2016 and December 31, 2015. None of the unrecognized tax benefits are expected to reverse in the next 12 months.

**13. STOCKHOLDERS' EQUITY**

**Capital Stock** — Holders of Class A Common Stock and Class B Common Stock are entitled to one vote for each share held on all matters submitted to stockholders for their vote or approval. The holders of Class A Common Stock and Class B Common Stock vote together as a single class on all matters submitted to stockholders for their vote or approval, except with respect to the amendment of certain provisions of the amended and restated Certificate of Incorporation that would alter or change the powers, preferences or special rights of the Class B Common Stock so as to affect them adversely. Such amendments must be approved by a majority of the votes entitled to be cast by the holders of the shares affected by the amendment, voting as a separate class, or as otherwise required by applicable law. The voting power of the outstanding Class B Common Stock (expressed as a percentage of the total voting power of all common stock) is equal to the percentage of partnership interests in New TMM not held directly or indirectly by TMHC.

The components and respective voting power of outstanding TMHC Common Stock at September 30, 2016 are as follows:

	Shares Outstanding	Percentage	
Class A Common Stock	30,415,653	25.5	%
Class B Common Stock	89,010,304	74.5	%
Total	119,425,957	100	%

**Stock Repurchase Program**

Our Board of Directors has authorized the repurchase of up to \$100.0 million of the Company's Class A Common Stock through December 31, 2017 in open market purchases, privately negotiated transactions or other transactions. The stock repurchase program is subject to prevailing market conditions and other considerations, including our liquidity, the terms of our debt instruments, planned land investment and development spending, acquisition and other investment opportunities and ongoing capital requirements. During the three and nine months ended September 30, 2016, there were an aggregate of 247,366 and 1,918,999 shares of Class A Common Stock repurchased for \$3.8 million and \$28.5 million, respectively.

**14. STOCK BASED COMPENSATION****Equity-Based Compensation**

In April 2013, we adopted the Taylor Morrison Home Corporation 2013 Omnibus Equity Award Plan, which was amended and restated in May 2016 (the "Plan"). The Plan provides for the grant of stock options, RSUs and other equity awards based on our common stock. As of September 30, 2016 we had an aggregate of 3,867,255 shares of Class A Common Stock available for future grants under the Plan.

The following table provides information regarding the amount and components of stock-based compensation expense, which except as described in Note 2 below, is included in general and administrative expenses in the accompanying Condensed Consolidated Statements of Operations (in thousands):

Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	2015	2016	2015

Edgar Filing: Taylor Morrison Home Corp - Form 10-Q

Restricted stock units (RSUs) <sup>(1)</sup>	\$1,810	\$964	\$4,948	\$2,389
Stock options	1,056	779	3,074	3,577
New TMM units	176	384	937	1,296
Total stock compensation <sup>(2)</sup>	\$3,042	\$2,127	\$8,959	\$7,262
Income tax expense recognized	\$(8 )	\$(1 )	\$(30 )	\$(7 )

<sup>(1)</sup> Includes compensation expense related to time-based RSUs and performance-based RSUs.



Table of Contents

<sup>(2)</sup> Included in the table above for the nine months ended September 30, 2015 is \$1.5 million of stock compensation expense related to the acceleration of vesting for equity awards held by Monarch employees. The sale of Monarch triggered a change in control provision provided for in the respective award agreements and plan document. The expense related to the acceleration of awards is included in transaction expenses from discontinued operations in the accompanying Condensed Consolidated Statement of Operations for the nine months ended September 30, 2015.

At September 30, 2016 and December 31, 2015, the aggregate unrecognized value of all outstanding stock-based compensation awards was approximately \$22.7 million and \$15.2 million, respectively.

Restricted Stock Units – The following table summarizes the time-based RSU and performance-based RSU activity for the nine months ended September 30, 2016:

	Shares	Weighted Average Grant Date Fair Value
Balance at December 31, 2015	441,296	\$ 13.55
Granted	1,087,007	11.39
Vested	(13,787 )	19.66
Forfeited	(48,769 )	13.45
Balance at September 30, 2016	1,465,747	\$ 13.38

During the three and nine months ended September 30, 2016, we issued time-based RSU awards and performance-based RSU awards to certain employees and members of the Board of Directors of the Company.

Our time-based RSUs consist of units to be settled in shares of Class A Common Stock awarded to our employees and members of our Board of Directors. Vesting of RSUs is subject to continued employment with TMHC or an affiliate, or continued service on the Board of Directors, through the applicable vesting dates. Time-based RSUs granted to employees generally become vested with respect to 33% of the RSUs on the second, third, and fourth anniversaries of the grant date. Time-based RSUs granted to members of the Board of Directors generally become vested on the first anniversary of the grant date.

Additionally, we issued performance-based RSUs to certain employees of the Company. These awards will vest in full based on the achievement of certain performance goals over a three-year performance period, subject to the employee's continued employment through the last date of the performance period and will be settled in shares of our Class A common stock. The number of shares that may be issued in settlement of the performance-based RSUs to the award recipients may be greater or lesser than the target award amount depending on actual performance achieved as compared to the performance targets set forth in the awards.

Stock Options – The following table summarizes the stock option activity for the nine months ended September 30, 2016:

	Shares	Weighted Average Exercise Price Per Share
Outstanding at December 31, 2015	1,507,765	\$ 21.07
Granted	1,142,531	11.58
Canceled/Forfeited	(55,683 )	14.36
Outstanding at September 30, 2016	2,594,613	\$ 17.04
Options exercisable at September 30, 2016	641,814	\$ 21.47

Options granted to employees vest and become exercisable ratably on the second, third, fourth and fifth anniversary of the date of grant. Options granted to members of the Board of Directors vest and become exercisable ratably on the first, second and third anniversary of the date of grant. Vesting of the options is subject to continued employment with TMHC or an affiliate, or continued service on the Board of Directors, through the applicable vesting dates and expires within ten years from the date of grant.

New TMM Units – Certain members of management and certain members of the Board of Directors were issued Class M partnership units in TMM Holdings. Those units were subject to both time and performance vesting conditions. In addition, TMM Holdings issued phantom Class M Units to certain employees who resided in Canada, which are treated as Class M Units for the purposes of this description and the financial statements. In connection with the sale of Monarch, all of the phantom

Table of Contents

Class M Units were settled pursuant to change in control provisions provided for in the award agreement. In the nine months ended September 30, 2015, we paid \$1.4 million in settlement of these awards; there was no activity for the nine months ended September 30, 2016.

Pursuant to the Reorganization Transactions, the time-vesting Class M Units in TMM Holdings were exchanged for New TMM Units with vesting terms substantially the same as the Class M Units surrendered for exchange. One New TMM Unit together with a corresponding share of Class B Common Stock is exchangeable for one share of Class A Common Stock. The shares of Class B Common Stock/New TMM Units held by management and our Board of Directors outstanding as of September 30, 2016 were as follows:

	Class B Shares/New TMM Units	Weighted Average Grant Date Fair Value
Balance at December 31, 2015	1,312,874	\$ 5.45
Granted	—	—
Exchanges <sup>(1)</sup>	(96,444 )	4.52
Forfeited <sup>(2)</sup>	(1,821 )	10.20
Balance at September 30, 2016	1,214,609	\$ 5.44

<sup>(1)</sup> Exchanges during the period represent the exchange of a vested New TMM Unit along with the corresponding share of Class B Common Stock for a newly issued share of Class A Common Stock.

<sup>(2)</sup> Awards forfeited during the period represent the unvested portion of New TMM Unit awards for employees who have terminated employment with the Company and for which the New TMM Unit and the corresponding Class B Share have been canceled.

## 15. RELATED-PARTY TRANSACTIONS

From time to time, we may engage in transactions with entities or persons that are affiliated with us or one or more of the Principal Equityholders. For the three and nine months ended September 30, 2016, there were no such transactions. For the three months ended September 30, 2015, there were no such transactions and for the nine months ended September 30, 2015, there were \$16.8 million in real estate inventory acquisitions from such affiliates. Such real estate transactions with related parties are in the normal course of operations and are executed at arm's length, as they are entered into at terms comparable to those entered into with unrelated third parties.

## 16. ACCUMULATED OTHER COMPREHENSIVE INCOME

The table below provides the components of accumulated other comprehensive income (loss) ("AOCI") for the periods presented (in thousands). There was no AOCI activity in the three months ended September 30, 2016, therefore it is not presented below.

	Nine Months Ended September 30, 2016			Total
	Total Post- Retirement Benefits Adjustments	Foreign Currency Translation Adjustments	Non-controlling Interest - Principal Equityholders Reclassification	
Balance, beginning of period	\$2,305	\$ (79,927 )	\$ 59,625	\$(17,997)
Other comprehensive loss before reclassifications	(447 )	—	—	(447 )
Other comprehensive loss, net of tax	\$(447 )	\$ —	\$ —	\$(447 )
Gross amounts reclassified within accumulated other comprehensive income	—	—	329	329
Balance, end of period	\$1,858	\$ (79,927 )	\$ 59,954	\$(18,115)



Table of Contents

	Three Months Ended September 30, 2015			
	Total Post-Retirement Benefits Adjustments	Foreign Currency Translation Adjustments	Non-controlling Interest - Principal Equityholders Reclassification	Total
Balance, beginning of period	\$678	\$(79,362)	\$ 60,838	\$(17,846)
Other comprehensive income before reclassifications	—	(565)	—	(565)
Other comprehensive income, net of tax	\$—	\$(565)	\$ —	\$(565)
Gross amounts reclassified within accumulated other comprehensive income	—	—	452	452
Balance, end of period	\$678	\$(79,927)	\$ 61,290	\$(17,959)

	Nine Months Ended September 30, 2015			
	Total Post-Retirement Benefits Adjustments	Foreign Currency Translation Adjustments	Non-controlling Interest - Principal Equityholders Reclassification	Total
Balance, beginning of period	\$692	\$(52,148)	\$ 40,546	\$(10,910)
Other comprehensive income/(loss) before reclassifications	269	(27,779)	—	(27,510)
Gross amounts reclassified from accumulated other comprehensive income	1,488	—	—	1,488
Foreign currency translation	518	—	(518)	—
Other comprehensive income/(loss), net of tax	\$2,275	\$(27,779)	\$ (518)	\$(26,022)
Gross amounts reclassified within accumulated other comprehensive (loss)/income	(2,289)	—	21,262	18,973
Balance, end of period	\$678	\$(79,927)	\$ 61,290	\$(17,959)

Reclassifications for the amortization of the employee retirement plans are included in selling, general and administrative expense in the accompanying Condensed Consolidated Statements of Operations.

#### 17. OPERATING AND REPORTING SEGMENTS

As of December 31, 2015, we realigned our homebuilding reporting segments to be the East, Central and West homebuilding operating regions. Within these, we have multiple homebuilding operating divisions which are engaged in the business of acquiring and developing land, constructing homes, marketing and selling those homes, and providing warranty and customer service. We aggregate our homebuilding operating divisions into reporting segments based on similar long-term economic characteristics. We also have a mortgage and title services reporting segment. We have no inter-segment sales as all sales are to external customers.

Our reporting segments are as follows:

East	Atlanta, Charlotte, North Florida, Raleigh, Southwest Florida and Tampa
Central	Austin, Dallas and Houston (which includes a Taylor Morrison division and a Darling Homes division)
West	Bay Area, Chicago, Denver, Phoenix, Sacramento and Southern California
Mortgage Operations	Taylor Morrison Home Funding and Inspired Title

Management primarily evaluates homebuilding segment performance based on GAAP gross margin, defined as homebuilding and land revenue less cost of home construction, land development and other land sales costs and other costs incurred by, or allocated to each segment, including impairments. Operating results for each segment may not be indicative of the results for such segment had it been an independent, stand-alone entity.

As a result of our realignment, historical periods in the financial statements have been recast to give effect to the segment changes. Segment information, excluding discontinued operations, is as follows (in thousands):

24

---

Table of Contents

	Three Months Ended September 30, 2016					
	East	Central	West	Mortgage Operations	Corporate and Unallocated	Total
Total revenues	\$278,152	\$244,578	\$316,873	\$ 13,814	\$—	\$853,417
Gross margin	69,473	48,016	55,428	5,937	—	178,854
Selling, general and administrative expenses	(25,505 )	(22,765 )	(21,945 )	—	(18,006 )	(88,221 )
Equity in income of unconsolidated entities	132	331	319	864	—	1,646
Interest and other (expense)/income, net	(562 )	(1,172 )	(512 )	4	354	(1,888 )
Income/(loss) from continuing operations before income taxes	\$43,538	\$24,410	\$33,290	\$ 6,805	\$(17,652 )	\$90,391
	Three Months Ended September 30, 2015					
	East	Central	West	Mortgage Operations	Corporate and Unallocated	Total
Total revenues	\$223,625	\$255,400	\$305,947	\$ 11,316	\$—	\$796,288
Gross margin	47,459	49,532	48,127	4,354	—	149,472
Selling, general and administrative expenses	(20,536 )	(21,926 )	(19,822 )	(2 )	(16,460 )	(78,746 )
Equity in (loss)/income of unconsolidated entities	—	(427 )	(197 )	504	—	(120 )
Interest and other (expense)/income, net	(825 )	(3,113 )	(108 )	—	1,686	(2,360 )
Income/(loss) from continuing operations before income taxes	\$26,098	\$24,066	\$28,000	\$ 4,856	\$(14,774 )	\$68,246
	Nine Months Ended September 30, 2016					
	East	Central	West	Mortgage Operations	Corporate and Unallocated	Total
Total revenues	\$711,681	\$687,088	\$917,342	\$ 36,951	\$—	\$2,353,062
Gross margin	160,130	129,312	153,448	14,357	—	457,247
Selling, general and administrative expenses	(72,123 )	(65,532 )	(64,375 )	—	(54,348 )	(256,378 )
Equity in income of unconsolidated entities	440	110	1,303	2,881	—	4,734
Interest and other (expense)/income, net	(2,517 )	(3,232 )	(1,462 )	14	(1,256 )	(8,453 )
Income/(loss) from continuing operations before income taxes	\$85,930	\$60,658	\$88,914	\$ 17,252	\$(55,604 )	\$197,150

Table of Contents

	Nine Months Ended September 30, 2015					
	East	Central	West	Mortgage Operations	Corporate and Unallocated	Total
Total revenues	\$523,435	\$706,475	\$747,972	\$28,794	\$—	\$2,006,676
Gross margin	113,813	135,719	120,507	10,674	—	380,713
Selling, general and administrative expenses	(49,742 )	(61,553 )	(50,633 )	(2 )	(44,965 )	(206,895 )
Equity in income/(loss) of unconsolidated entities	241	188	(619 )	1,598	—	1,408
Interest and other (expense)/income, net	(1,850 )	(10,136 )	421	—	105	(11,460 )
Loss on extinguishment of debt	—	—	—	—	(33,317 )	(33,317 )
Gain on foreign currency forward	—	—	—	—	29,983	29,983
Income/(loss) from continuing operations before income taxes	\$62,462	\$64,218	\$69,676	\$12,270	\$(48,194 )	\$160,432

	As of September 30, 2016					
	East	Central	West	Mortgage Operations	Corporate and Unallocated	Total
Real estate inventory and land deposits	\$1,094,243	\$797,192	\$1,430,953	\$—	\$—	\$3,322,388
Investments in unconsolidated entities	25,556	29,479	93,356	3,215	—	151,606
Other assets	61,192	144,311	60,279	144,454	385,305	795,541
Total assets	\$1,180,991	\$970,982	\$1,584,588	\$147,669	\$385,305	\$4,269,535

	As of December 31, 2015					
	East	Central	West	Mortgage Operations	Corporate and Unallocated	Total
Real estate inventory and land deposits	\$927,359	\$757,863	\$1,475,678	\$—	\$—	\$3,160,900
Investments in unconsolidated entities	24,098	28,832	72,646	2,872	—	128,448
Other assets	52,817	164,192	74,379	237,430	299,228	828,046
Total assets	\$1,004,274	\$950,887	\$1,622,703	\$240,302	\$299,228	\$4,117,394

**18. COMMITMENTS AND CONTINGENCIES**

**Letters of Credit and Surety Bonds** — We are committed, under various letters of credit and surety bonds, to perform certain development and construction activities and provide certain guarantees in the normal course of business. Outstanding letters of credit and surety bonds under these arrangements totaled \$393.6 million and \$394.8 million as of September 30, 2016 and December 31, 2015, respectively. Although significant development and construction activities have been completed related to these site improvements, the bonds are generally not released until all development and construction activities are completed. We do not believe that it is probable that any outstanding bonds as of September 30, 2016 will be drawn upon.

**Legal Proceedings** — We are involved in various litigation and legal claims in the normal course of our business operations, including actions brought on behalf of various classes of claimants. We are also subject to a variety of local, state, and federal laws and regulations related to land development activities, house construction standards, sales practices, mortgage lending operations, employment practices, and protection of the environment. As a result, we are subject to periodic examination or inquiry by various governmental agencies that administer these laws and regulations. We establish liabilities for legal claims and regulatory matters when such matters are both probable of



occurring and any potential loss is reasonably estimable. At September 30, 2016 and December 31, 2015, our legal accruals were \$2.1 million and \$0.8 million, respectively. We accrue for such matters based on the facts and circumstances specific to each matter and revise these estimates as the matters evolve. In such cases, there may exist an exposure to loss in excess of any amounts currently accrued. In view of the inherent difficulty of predicting the outcome of these legal and regulatory matters, we generally cannot predict the ultimate resolution of the pending matters, the related timing or the eventual loss. While the outcome of such contingencies cannot be predicted with certainty, we do not believe that the resolution of such matters will have a material adverse impact on our results of operations, financial

Table of Contents

position, or cash flows. However, to the extent the liability arising from the ultimate resolution of any matter exceeds the estimates reflected in the recorded reserves relating to such matter, we could incur additional charges that could be significant.

27

---

Table of Contents

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For purposes of this “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” the terms “the Company,” “we,” “us,” or “our” refer to Taylor Morrison Home Corporation (“TMHC”) and its subsidiaries.

Forward-Looking Statements

This quarterly report includes certain forward-looking statements within the meaning of the federal securities laws regarding, among other things, our or management’s intentions, plans, beliefs, expectations or predictions of future events, which are considered forward-looking statements. You should not place undue reliance on those statements because they are subject to numerous uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. Forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These statements often include words such as “may,” “will,” “should,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate,” “can,” “could,” “might,” “project” or similar expressions. These statements are based upon assumptions that we have made in light of our experience in the industry, as well as our perceptions of historical trends, current conditions, expected future developments and other factors that we believe are appropriate under the circumstances. As you read this quarterly report, you should understand that these statements are not guarantees of performance or results. They involve known and unknown risks, uncertainties and assumptions, including those described under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015 (the “Annual Report”) filed with the Securities and Exchange Commission (“SEC”). Although we believe that these forward-looking statements are based upon reasonable assumptions, you should be aware that many factors, including those described under the heading “Risk Factors” in the Annual Report, could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements.

Our forward-looking statements made herein are made only as of the date of this quarterly report. We expressly disclaim any intent, obligation or undertaking to update or revise any forward-looking statements made herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based, except as required by applicable law.

Business Overview

Our principal business is residential homebuilding and the development of lifestyle communities with operations in Arizona, California, Colorado, Georgia, Florida, Illinois, North Carolina and Texas. Our Company serves a wide array of consumer groups from coast to coast, including first time, move-up, luxury and 55 plus buyers. Our homebuilding business operates under our Taylor Morrison and Darling Homes brand names. Our business is organized into multiple homebuilding operating divisions and a mortgage and title services division, which are managed as multiple reportable segments, as follows:

East	Atlanta, Charlotte, North Florida, Raleigh, Southwest Florida and Tampa
Central	Austin, Dallas and Houston (which includes a Taylor Morrison division and a Darling Homes division)
West	Bay Area, Chicago, Denver, Phoenix, Sacramento and Southern California
Mortgage Operations	Taylor Morrison Home Funding (“TMHF”) and Inspired Title Services, LLC (“Inspired Title”)

We offer single family attached and detached homes and revenue is recognized when the homes are completed and delivered to the buyers. Our primary costs are the acquisition of land in various stages of development and the construction costs of the homes we sell.

Our Mortgage Operations reportable segment provides mortgage services to customers through our wholly owned mortgage subsidiary, TMHF, and title services through our wholly owned title services subsidiary, Inspired Title.

Revenues from loan origination are recognized at the time the related real estate transactions are completed, usually upon the close of escrow.

#### Factors Affecting Comparability of Results

The Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our condensed consolidated financial statements included elsewhere in this quarterly report. The primary factors that affect the comparability of our results of operations are the disposal of Monarch Corporation ("Monarch") and gain on foreign currency hedge in January 2015, loss on extinguishment of debt and the acquisition of JEH Homes in the second quarter of 2015, the acquisition of three divisions of Orleans Homes in the third quarter of 2015, and the acquisition of Acadia Homes in January 2016. For the nine months ended September 30, 2015, the operating results of Monarch are included in discontinued

Table of Contents

operations, and historical periods have been recast to show the effects of our segment realignment effective December 31, 2015.

Non-GAAP Measures

In addition to the results reported in accordance with generally accepted accounting principles in the United States (“GAAP”), we have provided information in this quarterly report relating to “adjusted home closings gross margin.”

Adjusted home closings gross margin

We calculate adjusted home closings gross margin from GAAP gross margin by adding impairment charges, if any, attributable to the write-down of communities, and the amortization of capitalized interest through cost of home closings. Management uses adjusted home closings gross margin to evaluate our operational and economic performance on a consolidated basis as well as the operating and economic performance of our segments. We believe adjusted home closings gross margin is relevant and useful to investors for evaluating our overall financial performance. This measure is considered a non-GAAP financial measure and should be considered in addition to, rather than as a substitute for, the comparable GAAP financial measure as a measure of our operating performance. Although other companies in the homebuilding industry report similar information, the methods used may differ.

Third Quarter 2016 Highlights

Key financial results as of and for the three months ended September 30, 2016, as compared to the same period in 2015, are as follows:

- ◆ Net sales orders were 1,950, a 19% increase from the prior year quarter
- ◆ Average active community count increased 12% from the prior year quarter to 309
- ◆ Total revenue was \$853 million, a 7% increase from the prior year quarter
- ◆ GAAP home closings gross margin, inclusive of capitalized interest, was 18.9%, up 50 basis points from prior year quarter
- ◆ Earnings before tax as a percent of revenue was 10.6%, a 200 basis points increase from prior year quarter
- ◆ Net income for the quarter was \$58 million, a 28% increase from prior year, with earnings per share of \$0.49

Table of Contents

## Results of Operations

The following table sets forth our results of operations (unaudited):

(Dollars in thousands)	Three Months Ended		Nine Months Ended		
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015	
Statements of Operations Data:					
Home closings revenue, net	\$812,185	\$779,190	\$2,271,154	\$1,955,170	
Land closings revenue	27,418	5,782	44,957	22,712	
Mortgage operations revenue	13,814	11,316	36,951	28,794	
Total revenues	853,417	796,288	2,353,062	2,006,676	
Cost of home closings	658,507	635,935	1,852,724	1,594,691	
Cost of land closings	8,179	3,919	20,497	13,152	
Mortgage operations expenses	7,877	6,962	22,594	18,120	
Gross margin	178,854	149,472	457,247	380,713	
Sales, commissions and other marketing costs	58,277	53,482	165,300	136,724	
General and administrative expenses	29,944	25,264	91,078	70,171	
Equity in (income)/loss of unconsolidated entities	(1,646 )	120	(4,734 )	(1,408 )	
Interest income, net	(47 )	(33 )	(149 )	(165 )	
Other expense, net	1,935	2,393	8,602	11,625	
Loss on extinguishment of debt	—	—	—	33,317	
Gain on foreign currency forward	—	—	—	(29,983 )	
Income from continuing operations before income taxes	90,391	68,246	197,150	160,432	
Income tax provision	31,707	22,452	66,698	54,434	
Net income from continuing operations	58,684	45,794	130,452	105,998	
Discontinued operations:					
Transaction expenses from discontinued operations	—	—	—	(9,043 )	
Gain on sale of discontinued operations	—	—	—	80,205	
Income tax provision from discontinued operations	—	—	—	(14,500 )	
Net income from discontinued operations	—	—	—	56,662	
Net income before allocation to non-controlling interests	58,684	45,794	130,452	162,660	
Net income attributable to non-controlling interests – joint ventures	(376 )	(138 )	(856 )	(1,427 )	
Net income before non-controlling interests – Principal Equityholders	58,308	45,656	129,596	161,233	
Net income from continuing operations attributable to non-controlling interests – Principal Equityholders	(43,471 )	(33,312 )	(96,261 )	(76,470 )	
Net income from discontinued operations attributable to non-controlling interests – Principal Equityholders	—	—	—	(41,381 )	
Net income available to Taylor Morrison Home Corporation	\$14,837	\$12,344	\$33,335	\$43,382	
Home closings gross margin	18.9	% 18.4	% 18.4	% 18.4	%
Adjusted home closings gross margin	21.6	% 21.2	% 21.1	% 21.4	%
Sales, commissions and other marketing costs as a percentage of home closings revenue	7.2	% 6.9	% 7.3	% 7.0	%
General and administrative expenses as a percentage of home closings revenue	3.7	% 3.2	% 4.0	% 3.6	%
Average sales price per home closed	\$468	\$458	\$459	\$461	



Table of ContentsThree and Nine Months Ended September 30, 2016 Compared to Three and Nine Months Ended September 30, 2015  
Average Active Selling Communities

	Three Months Ended September 30, 2016			2015 Change		
East	125	102	22.5 %			
Central	108	100	8.0			
West	76	74	2.7			
Total	309	276	12.0 %			

	Nine Months Ended September 30, 2016			2015 Change		
East	124	100	24.0 %			
Central	110	96	14.6			
West	78	72	8.3			
Total	312	268	16.4 %			

Average active selling communities for the three and nine months ended September 30, 2016 increased by 12.0% and 16.4%, respectively, when compared to the same periods in the prior year. The increase in the East was primarily driven by our legacy markets; however, the acquisition of Acadia Homes in January 2016 increased the East's average active communities by 5.9% and 8.0% for the three and nine months ended September 30, 2016, respectively, when compared to the same period in 2015. From September 2015 to September 2016, we opened a total of 110 new communities and closed out 78 existing communities throughout all of our markets.

## Net Sales Orders

	Three Months Ended September 30,						Average Selling Price		
	Net Sales Orders <sup>(1)</sup>			Sales Value <sup>(1)</sup>			2016	2015	Change
(Dollars in thousands)	2016	2015	Change	2016	2015	Change	2016	2015	Change
East	776	558	39.1 %	\$294,472	\$197,329	49.2 %	\$379	\$354	7.1 %
Central	484	458	5.7	225,882	205,277	10.0	467	448	4.2
West	690	619	11.5	398,261	306,149	30.1	577	495	16.6
Total	1,950	1,635	19.3 %	\$918,615	\$708,755	29.6 %	\$471	\$433	8.8 %

	Nine Months Ended September 30,						Average Selling Price		
	Net Sales Orders <sup>(1)</sup>			Sales Value <sup>(1)</sup>			2016	2015	Change
(Dollars in thousands)	2016	2015	Change	2016	2015	Change	2016	2015	Change
East	2,310	1,598	44.6 %	\$887,673	\$585,898	51.5 %	\$384	\$367	4.6 %
Central	1,408	1,626	(13.4)	648,535	729,278	(11.1)	461	449	2.7
West	2,085	2,017	3.4	1,149,824	982,968	17.0	551	487	13.1
Total	5,803	5,241	10.7 %	\$2,686,032	\$2,298,144	16.9 %	\$463	\$438	5.7 %

<sup>(1)</sup> Net sales orders represent the number and dollar value of new sales contracts executed with customers, net of cancellations.



East:

The number of net homes sold increased by 39.1% and 44.6%, respectively, for the three and nine months ended September 30, 2016 compared to the prior year. Sales value of homes increased by 49.2% and 51.5%, respectively, for the same comparative periods. The change in the total sales value was a result of higher units, primarily attributable to an increase in average active selling communities in the majority of our markets. In addition, the balances for the current year represent full period net sales orders from our acquired divisions, whereas the prior year's balances include data for the acquired divisions only for the periods

31

---

Table of Contents

since their respective acquisitions. The average selling price of net homes sold increased throughout the region for the three and nine months ended September 30, 2016 due to product mix.

## Central:

The number of net homes sold increased by 5.7% for the three months ended September 30, 2016 compared to the prior year and decreased by 13.4% for the nine months ended September 30, 2016 compared to the same respective period in 2015. Sales value of homes increased by 10.0% and decreased by 11.1%, respectively, for the three and nine months ended September 30, 2016 compared to the prior year. For the quarter and year to date, average selling price increased over the prior year. While the economic environment relating to job loss and less than historical relocations in this region impacted the year-over-year performance, certain divisions in the Central region are showing recent strength in their markets as evidenced by increased average selling prices for the quarter and year to date as well as declining cancellation rates, net sales orders and sales value for the quarter.

## West:

Sales value of homes increased by 30.1% and 17.0%, respectively, for the three and nine months ended September 30, 2016 compared to the prior year. The average selling price of net homes sold increased by 16.6% and 13.1% for the three and nine month periods, which contributed to the increased total sales value. Our Phoenix and California divisions continue to be strong selling markets due to macro-economic conditions such as lower unemployment rates and consumer demand, allowing for price increases. The number of net homes sold increased by 11.5% and 3.4%, respectively, for the three and nine month 2016 periods as compared to the prior year results of a moderate increase in average active communities.

## Sales Order Cancellations

Cancellation Rate<sup>(1)</sup>

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	2016	2015	2016	2015
East	13.1%	12.7%	12.1%	11.5%
Central	13.7	18.9	16.3	14.5
West	14.4	14.7	12.8	12.2
Total Company	13.7%	15.3%	13.4%	12.7%

<sup>(1)</sup> Cancellation rate represents the number of canceled sales orders divided by gross sales orders.

The primary driver for the increase in the consolidated cancellation rate for the nine months ended September 30, 2016 compared to the prior year was the Central region. The rate in our Houston divisions is normalizing after twelve months of elevated rates as a result of the economics relating to job loss and less than historical relocations. Such normalization is the driver for the decrease in the cancellation rate for the three months ended September 30, 2016 compared to the prior year. Our use of prequalification criteria through TMHF and robust earnest money deposits help us manage our cancellation rate across the company.

## Sales Order Backlog

(Dollars in thousands)	As of September 30, Sold Homes in Backlog <sup>(1)</sup>			Sales Value			Average Selling Price		
	2016	2015	Change	2016	2015	Change	2016	2015	Change
East	1,438	1,098	31.0 %	\$592,031	\$435,961	35.8 %	\$412	\$397	3.8 %

Edgar Filing: Taylor Morrison Home Corp - Form 10-Q

Central	1,024	1,292	(20.7)	517,972	622,368	(16.8)	506	482	5.0	
West	1,393	1,170	19.1	761,874	581,268	31.1	547	497	10.1	
Total	3,855	3,560	8.3	% \$1,871,877	\$1,639,597	14.2	% \$486	\$461	5.4	%

<sup>(1)</sup> Sales order backlog represents homes under contract for which revenue has not yet been recognized at the end of the period (including homes sold but not yet started). Some of the contracts in our sales order backlog are subject to contingencies including mortgage loan approval and buyers selling their existing homes, which can result in cancellations.



communities during the same period. The number of homes closed and home closings revenue, net increased by 19.3% and 22.0%, respectively, for the nine months ended September 30, 2016 compared to the prior year. The increase in units was primarily driven by our Phoenix market. Phoenix and our California markets contributed to the increase in home closing revenue, net as a result of increased average selling prices.

Table of Contents

## Land Closings Revenue

Three Months Ended  
September 30,

(Dollars in thousands)	2016	2015	Change
East	\$ 14,711	\$ 4,427	\$ 10,284
Central	9,243	1,355	7,888
West	3,464	—	3,464
Total	\$ 27,418	\$ 5,782	\$ 21,636

Nine Months Ended  
September 30,

(Dollars in thousands)	2016	2015	Change
East	\$ 14,736	\$ 4,872	\$ 9,864
Central	19,113	12,799	6,314
West	11,108	5,041	6,067
Total	\$ 44,957	\$ 22,712	\$ 22,245

We generally purchase land and lots with the intent to build and sell homes. However, in some locations where we act as a developer, we occasionally purchase land that includes commercially zoned parcels or areas designated for school or government use, which we typically sell to commercial developers or municipalities, as applicable. We also sell residential lots or land parcels to manage our land and lot supply on larger tracts of land. As a developer, we may include land sales in our underwriting strategies in many of our master plan communities where we may mitigate risk, enhance our returns or pursue opportunities allowing access to new land positions. Land and lot sales occur at various intervals and varying degrees of profitability. Therefore, the revenue and gross margin from land closings will fluctuate from period to period, depending upon market opportunities. During the quarter ended September 30, 2016, land closings revenue was \$21.6 million greater than the same period in the prior year as we were able to capitalize on certain market conditions relative to our long-term strategic assets. The sales represent legacy land that we held for either appreciation or tax purposes. As of the third quarter of 2016, the tax holding period for certain land assets expired, creating certain tax benefits, thus resulting in our significant land sales for the quarter.

Table of Contents

Segment Home Closings Gross Margin

The following tables set forth a reconciliation between our GAAP home closings gross margin and adjusted home closings gross margin. See “—Non-GAAP Measures—Adjusted home closings gross margin.”

	Three Months Ended September 30,								
	East		Central		West		Consolidated		
(Dollars in thousands)	2016	2015	2016	2015	2016	2015	2016	2015	
Home closings revenue, net	\$263,442	\$219,198	\$235,335	\$254,045	\$313,408	\$305,947	\$812,185	\$779,190	
Cost of home closings	206,117	173,214	192,260	204,896	260,130	257,825	658,507	635,935	
Home closings gross margin	57,325	45,984	43,075	49,149	53,278	48,122	153,678	143,255	
Capitalized interest amortization	5,169	5,369	6,821	7,425	9,512	9,092	21,502	21,886	
Adjusted home closings gross margin	\$62,494	\$51,353	\$49,896	\$56,574	\$62,790	\$57,214	\$175,180	\$165,141	
Home closings gross margin %	21.8	% 21.0	% 18.3	% 19.3	% 17.0	% 15.7	% 18.9	% 18.4	%
Adjusted home closings gross margin %	23.7	% 23.4	% 21.2	% 22.3	% 20.0	% 18.7	% 21.6	% 21.2	%
	Nine Months Ended September 30,								
	East		Central		West		Consolidated		
(Dollars in thousands)	2016	2015	2016	2015	2016	2015	2016	2015	
Home closings revenue, net	\$696,944	\$518,563	\$667,975	\$693,676	\$906,235	\$742,931	\$2,271,154	\$1,955,170	
Cost of home closings	548,931	406,442	545,016	563,504	758,777	624,745	1,852,724	1,594,691	
Home closings gross margin	148,013	112,121	122,959	130,172	147,458	118,186	418,430	360,479	
Capitalized interest amortization	13,983	13,880	18,852	21,271	27,197	23,452	60,032	58,603	
	\$161,996	\$126,001	\$141,811	\$151,443	\$174,655	\$141,638	\$478,462	\$419,082	

Edgar Filing: Taylor Morrison Home Corp - Form 10-Q

Adjusted home closings gross margin									
Home closings gross margin %	21.2	% 21.6	% 18.4	% 18.8	% 16.3	% 15.9	% 18.4	% 18.4	%
Adjusted home closings gross margin %	23.2	% 24.3	% 21.2	% 21.8	% 19.3	% 19.1	% 21.1	% 21.4	%

On a consolidated basis home closings gross margin percentage increased to 18.9% from 18.4% for the three months ended September 30, 2016 compared to the same period of 2015 and remained unchanged at 18.4% for the nine months ended September 30, 2016 compared to the prior year period. For the nine months ended September 30, 2016, amortization of capitalized interest benefited our overall margins as we experienced a decrease in our interest costs from the redemption, in May 2015, of our 7.75% Senior Notes due 2020 and issuance, in April 2015, of our 5.875% Senior Notes due 2023. Partially offsetting this benefit, we increased closings of aged finished inventory which negatively impacted margins as such homes typically have lower margins than to-be-built homes.

East:

Home closings gross margin percentage increased to 21.8% from 21.0% for the three months ended September 30, 2016 compared to 2015 and decreased to 21.2% from 21.6% for the nine months ended September 30, 2016 compared to the prior year. The increase for the quarter is primarily due to an increase in the average selling price in several of our divisions within this region as demand for our product increased despite the shift in mix. The decrease for the comparative nine month period is primarily due to an overall shift in our product mix from our higher margin homes in our Florida divisions to our acquired divisions which have slightly lower margins.

Central:



Table of Contents

Home closings gross margin percentage decreased to 18.3% from 19.3% for the three months ended September 30, 2016 compared to 2015 and to 18.4% from 18.8% for the nine months ended September 30, 2016 compared to the prior year. The decreases are primarily a result of higher incentives in our Darling Houston business as well as a shift in product mix in our Austin market.

## West:

Home closings gross margin percentage increased to 17.0% from 15.7% for the three months ended September 30, 2016 compared to 2015 and to 16.3% from 15.9% for the nine months ended September 30, 2016 compared to the prior year. The changes for all comparative periods were a result of increased homes closed in our Southern California and Phoenix divisions. When compared to the prior year, our Southern California division closed more homes in the current year in communities with higher than average margins. The demand in our Phoenix market increased average selling price for the quarter and for the nine months ended September 30, 2016 which contributed to the increase in margin for all comparative periods.

## Mortgage Operations

Our Mortgage Operations segment provides mortgage lending through our subsidiary, TMHF, and title services through our subsidiary, Inspired Title. The following is a summary of mortgage operations gross margin:

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Mortgage operations revenue	\$13,814	\$11,316	\$36,951	\$28,794
Mortgage operations expenses	7,877	6,962	22,594	18,120
Mortgage operations gross margin	\$5,937	\$4,354	\$14,357	\$10,674
Mortgage operations margin %	43.0	% 38.5	% 38.9	% 37.1

Our Mortgage Operations segment's revenue increased primarily due to increased closings volume, average loan amounts, and strong capture rates.

The following details the number of loans closed, the aggregate value and capture rate on our loans for the following periods:

	Closed Loans	Aggregate Loan Volume (in millions)	Capture Rate
Three Months Ended September 30, 2016	1,068	\$ 357.0	81 %
Three Months Ended September 30, 2015	964	\$ 319.8	80 %

	Closed Loans	Aggregate Loan Volume (in millions)	Capture Rate
Nine Months Ended September 30, 2016	2,965	\$ 992.0	80 %
Nine Months Ended September 30, 2015	2,471	\$ 826.8	78 %

Our mortgage capture rate represents the percentage of our homes sold to a home purchaser that utilized a mortgage and for which the borrower obtained such mortgage from TMHF or one of our preferred third party lenders. In the third quarter of 2016 and 2015, the average FICO score of customers who obtained mortgages through TMHF was 744 and 743, respectively. In the first nine months of 2016 and 2015, the average FICO score of customers who obtained their mortgages through TMHF was 743 for both periods.

**Sales, Commissions and Other Marketing Costs**

Sales, commissions and other marketing costs, as a percentage of home closings revenue, net, increased 0.3% for the three and nine months ended September 30, 2016 to 7.2% and 7.3%, respectively. The increases are primarily a result of our newly acquired divisions. Our new communities typically have higher sales and marketing costs during their earlier stages of sales due to various start up costs.

36

---

## Table of Contents

### General and Administrative Expenses

General and administrative expenses as a percentage of home closings revenue, net, increased to 3.7% from 3.2%, for the three months ended September 30, 2016 and 2015, respectively, and to 4.0% from 3.6% for the nine months ended September 30, 2016 compared to the prior year, respectively. The increase is attributable to personnel and other investments we have made for future business optimization as well as recent acquisitions.

### Equity in Income/Loss of Unconsolidated Entities

Equity in income/loss of unconsolidated entities was \$1.6 million income and \$0.1 million loss for the three months ended September 30, 2016 and 2015, respectively, and \$4.7 million and \$1.4 million income for the nine months ended September 30, 2016 and September 30, 2015, respectively. The increase is primarily due to our increase in active unconsolidated joint ventures. We had five active unconsolidated joint ventures at September 30, 2016 compared to three active at September 30, 2015.

### Interest Income, Net

Interest income, net includes interest earned on cash balances offset by interest incurred but not capitalized on our long-term debt and other borrowings. Interest income for three and nine months ended September 30, 2016 and September 30, 2015 was consistent.

### Other Expense, Net

Other expense, net for the three months ended September 30, 2016 and 2015 was \$1.9 million and \$2.4 million, respectively, and \$8.6 million and \$11.6 million for the nine months ended September 30, 2016 and September 30, 2015, respectively. The majority of the expense for both periods related to pre-acquisition costs on abandoned land projects, captive insurance claims costs and financing fees on our Revolving Credit Facility. Furthermore, the decrease from the prior year is primarily as result of our accruals for contingent consideration relating to our acquisitions in that year.

### Loss on Extinguishment of Debt

In 2015, we redeemed the entire outstanding aggregate principal amount of our 2020 Senior Notes at a redemption price of 105.813% of their aggregate principal amount, plus accrued and unpaid interest thereon to, but not including, the date of redemption. As a result of the redemption, we recorded a loss on extinguishment of debt of \$33.3 million, which included the payment of the redemption premium and write off of net unamortized deferred financing fees.

We did not incur any losses on extinguishment of debt for the three months ended September 30, 2016 and 2015 or the nine months ended September 30, 2016.

### Gain on Foreign Currency Forward

In December 2014, we entered into a derivative financial instrument in the form of a foreign currency forward. The derivative financial instrument hedged our exposure to the Canadian dollar in conjunction with the disposition of the Monarch business. The final settlement of the derivative financial instrument occurred on January 30, 2015 and a gain in the amount of \$30.0 million was recorded in foreign currency forward in the accompanying Condensed Consolidated Statements of Operations for the nine months ended September 30, 2015.

### Income Tax Provision

The effective tax rate for the three months ended September 30, 2016 reflects a favorable accrual to return adjustment and certain benefits from energy tax credits which were not available for the same period in 2015. In addition, the effective tax rate for the three months ended September 30, 2016 was negatively impacted by the reversal of deferred tax assets related to certain inventory that was sold during the year. The reversal of the deferred tax asset lowered taxable income, which limited certain deductions.

Net Income

Net income and earnings per diluted share for the three months ended September 30, 2016 was \$58.3 million and \$0.49, respectively. Net income and earnings per diluted share for the three months ended September 30, 2015 was \$45.7 million and \$0.37, respectively. The increase in net income and earnings per share from the prior year is attributable to an increase in margin dollars and an increase in our repurchase of treasury shares.

37

---

Table of Contents

## Liquidity and Capital Resources

## Liquidity

We finance our operations through the following:

- Borrowings under our Revolving Credit Facility (as defined below);
- Our various series of Senior Notes (as defined below);
- Mortgage warehouse facilities;
- Project-level financing (including non-recourse loans);
- Performance, payment and completion surety bonds, and letters of credit; and
- Cash generated from operations.

We believe that we can fund our current and foreseeable liquidity needs for the next 12 months from:

- Cash generated from operations;
- Borrowings under our Revolving Credit Facility; and
- Additional offerings of senior notes, depending on credit market conditions.

Our principal uses of capital for the nine months ended September 30, 2016 and 2015 were land purchases, lot development, home construction, operating expenses, payment of debt service, income taxes, investments in joint ventures, stock repurchases, and the payment of various liabilities. In addition, capital was used for the acquisition of Acadia homes and investments in joint ventures for the nine months ended September 30, 2016. Cash flows for each of our communities depend on the status of the development cycle, and can differ substantially from reported earnings. Early stages of development or expansion require significant cash expenditures for land acquisitions, on and off-site development, construction of model homes, general landscaping and other amenities. Because these costs are a component of our inventory and are not recognized in our statement of operations until a home closes, we incur significant cash outflows prior to recognition of earnings.

The table below summarizes our total cash and liquidity as of the dates indicated (in thousands):

(Dollars in thousands)	As of	
	September 30, 2016	December 31, 2015
Total Cash, including Restricted Cash	\$ 161,839	\$ 127,468
Total Revolving Credit Facility	500,000	500,000
Letters of Credit Outstanding	(33,513 )	(32,906 )
Revolving Credit Facility Borrowings Outstanding <sup>(1)</sup>	(215,000 )	(115,000 )
Revolving Credit Facility Availability	251,487	352,094
Total Liquidity	\$ 413,326	\$ 479,562

<sup>(1)</sup> Outstanding borrowings under the Revolving Credit Facility are presented gross of debt issuance costs.

## Cash Flow Activities

## Operating Cash Flow Activities

Our net cash provided by operating activities was \$142.4 million for the nine months ended September 30, 2016 compared to \$271.7 million used for the nine months ended September 30, 2015. The primary driver of the current

year cash provided by operating activities was due to a decrease in mortgage loans held for sale and cash generated therefrom, an increase in customer deposits, and a significant reduction in the amount expended for real estate year over year. We used cash in operating activities for the nine months ended September 30, 2015 primarily as a result of significant investments in real estate inventory from proceeds of the sale of Monarch.

Investing Cash Flow Activities

38

---

Table of Contents

Net cash used in investing activities was \$74.8 million for the nine months ended September 30, 2016, as compared to net cash provided by investing activities of \$59.7 million for the nine months ended September 30, 2015. We used cash of \$52.8 million during the first quarter of 2016 for the acquisition of Acadia Homes. Cash provided by investing activities in the 2015 period reflects the proceeds from the sale of Monarch and our foreign currency forward which occurred during the first quarter of the prior year, offset by cash outflow for our 2015 acquisitions and investments in joint ventures.

## Financing Cash Flow Activities

Net cash used in financing activities was \$33.3 million for the nine months ended September 30, 2016, compared to \$71.4 million for the nine months ended September 30, 2015. The decrease in cash used by financing activities was primarily attributable to the stock repurchase during the 2016 period and the redemption of our 2020 Senior Notes offset by the issuance of our 2023 Senior Notes which occurred in the nine months ended September 30, 2015.

## Debt Instruments

## Senior Notes:

The following table summarizes our outstanding senior unsecured notes (collectively, the “Senior Notes”), as of September 30, 2016.

(Dollars in thousands)	Date Issued	Principal Amount	Initial Offering Price		Interest Rate	Original Net Proceeds	Original Debt Issuance Cost
Senior Notes due 2021	April 16, 2013	550,000	100.0	%	5.250 %	541,700	8,300
Senior Notes due 2023	April 16, 2015	350,000	100.0	%	5.875 %	345,500	4,500
Senior Notes due 2024	March 5, 2014	350,000	100.0	%	5.625 %	345,300	4,700
Total		\$1,250,000				\$1,232,500	\$17,500

## 2021 Senior Notes

On April 16, 2013, we issued \$550.0 million aggregate principal amount of 5.25% Senior Notes due 2021 (the “2021 Senior Notes”).

The 2021 Senior Notes mature on April 15, 2021. The 2021 Senior Notes are guaranteed by TMM Holdings, Taylor Morrison Holdings, Inc., Taylor Morrison Communities II, Inc. and their homebuilding subsidiaries (collectively, the “Guarantors”) which are all subsidiaries directly or indirectly of TMHC. The 2021 Senior Notes and the related guarantees are senior unsecured obligations and are not subject to registration rights. The indenture for the 2021 Senior Notes contains covenants that limit (i) the making of investments, (ii) the payment of dividends and the redemption of equity and junior debt, (iii) the incurrence of additional indebtedness, (iv) asset dispositions, (v) mergers and similar corporate transactions, (vi) the incurrence of liens, (vii) the incurrence of prohibitions on payments and asset transfers among the issuers and restricted subsidiaries and (viii) transactions with affiliates, among others. The indenture governing the 2021 Senior Notes contains customary events of default. If we do not apply the net cash proceeds of certain asset sales within specified deadlines, we will be required to offer to repurchase the 2021 Senior Notes at par (plus accrued and unpaid interest) with such proceeds. We are also required to offer to repurchase the 2021 Senior Notes at a price equal to 101% of their aggregate principal amount (plus accrued and unpaid interest) upon certain change of control events.

There are no financial maintenance covenants for the 2021 Senior Notes.

2023 Senior Notes and Redemption of 2020 Senior Notes

On April 16, 2015, we issued \$350.0 million aggregate principal amount of 5.875% Senior Notes due 2023 (the “2023 Senior Notes”). The 2023 Senior Notes and the related guarantees are senior unsecured obligations and are not subject to registration rights. The net proceeds of the offering, together with cash on hand, were used to redeem the entire remaining principal amount of 7.75% Senior Notes due 2020 on May 1, 2015, at a redemption price of 105.813% of their aggregate principal amount, plus accrued and unpaid interest thereon to, but not including, the date of redemption. As a result of the redemption of the 2020 Senior Notes, we recorded a loss on extinguishment of debt of \$33.3 million during the second quarter of 2015, which included the payment of the redemption premium and write off of net unamortized deferred financing fees.



## Table of Contents

The 2023 Senior Notes mature on April 15, 2023. The 2023 Senior Notes are guaranteed by the same Guarantors that guarantee the 2021 Senior Notes. The indenture governing the 2023 Senior Notes contains covenants that limit our ability to incur debt secured by liens and enter into certain sale and leaseback transactions. The indenture governing the 2023 Senior Notes contains events of default that are similar to those contained in the indenture governing the 2021 Senior Notes. The change of control provisions in the indenture governing the 2023 Senior Notes are similar to those contained in the indenture governing the 2021 Senior Notes, but a credit rating downgrade must occur in connection with the change of control before the repurchase offer requirement is triggered for the 2023 Senior Notes.

Prior to January 15, 2023, the 2023 Senior Notes are redeemable at a price equal to 100% plus a “make-whole” premium for payments through January 15, 2023 (plus accrued and unpaid interest). Beginning January 15, 2023, the 2023 Senior Notes are redeemable at par (plus accrued and unpaid interest).

There are no financial maintenance covenants for the 2023 Senior Notes.

### 2024 Senior Notes

On March 5, 2014, we issued \$350.0 million aggregate principal amount of 5.625% Senior Notes due 2024 (the “2024 Senior Notes”). The net proceeds from the issuance of the 2024 Senior Notes were used to repay the outstanding balance under the Revolving Credit Facility and for general corporate purposes.

The 2024 Senior Notes mature on March 1, 2024. The 2024 Senior Notes are guaranteed by the same Guarantors that guarantee the 2021 and 2023 Senior Notes. The 2024 Senior Notes and the related guarantees are senior unsecured obligations and are not subject to registration rights. The indenture governing the 2024 Senior Notes contains covenants that limit our ability to incur debt secured by liens and enter into certain sale and leaseback transactions similar to the 2023 Senior Notes. The indenture governing the 2024 Senior Notes contains events of default that are similar to those contained in the indenture governing the 2021 and 2023 Senior Notes. The change of control provisions in the indenture governing the 2024 Senior Notes are similar to those contained in the indenture governing the 2023 Senior Notes.

Prior to December 1, 2023, the 2024 Senior Notes are redeemable at a price equal to 100% plus a “make-whole” premium for payments through December 1, 2023 (plus accrued and unpaid interest). Beginning on December 1, 2023, the 2024 Senior Notes are redeemable at par (plus accrued and unpaid interest).

There are no financial maintenance covenants for the 2024 Senior Notes.

### TMHC Compared to TMM Holdings

TMM Holdings is a parent guarantor of certain of our debt facilities. The financial information of TMHC is substantially identical to the financial performance and operations of TMM Holdings except for certain SEC and regulatory fees which are attributable to TMHC.

### Revolving Credit Facility

Our \$500.0 million Revolving Credit Facility matures on April 12, 2019. The Revolving Credit Facility is guaranteed by the same Guarantors that guarantee the 2021, 2023, and 2024 Senior Notes.

The Revolving Credit Facility contains certain “springing” financial covenants, requiring us and our subsidiaries to comply with a maximum debt to capitalization ratio of not more than 0.60 to 1.00 and a minimum consolidated tangible net worth level of at least \$1.5 billion. The financial covenants would be in effect for any fiscal quarter during which any (a) loans under the Revolving Credit Facility are outstanding during the last day of such fiscal quarter or on more than five separate days during such fiscal quarter or (b) undrawn letters of credit (except to the extent cash collateralized) issued under the Revolving Credit Facility in an aggregate amount greater than \$40.0 million or

unreimbursed letters of credit issued under the Revolving Credit Facility are outstanding on the last day of such fiscal quarter or for more than five consecutive days during such fiscal quarter.

For purposes of determining compliance with the financial covenants for any fiscal quarter, the Revolving Credit Facility provides that we may exercise an equity cure by issuing certain permitted securities for cash or otherwise recording cash contributions to our capital that will, upon the contribution of such cash to the borrower, be included in the calculation of consolidated tangible net worth and consolidated total capitalization. The equity cure right is exercisable up to twice in any period of four consecutive fiscal quarters and up to five times overall.

Table of Contents

The Revolving Credit Facility contains certain restrictive covenants including limitations on incurrence of liens, dividends and other distributions, asset dispositions and investments in entities that are not guarantors, limitations on prepayment of subordinated indebtedness and limitations on fundamental changes. The Revolving Credit Facility contains customary events of default, subject to applicable grace periods, including for nonpayment of principal, interest or other amounts, violation of covenants (including financial covenants, subject to the exercise of an equity cure), incorrectness of representations and warranties in any material respect, cross default and cross acceleration, bankruptcy, material monetary judgments, ERISA events with material adverse effect, actual or asserted invalidity of material guarantees and change of control. As of September 30, 2016, we were in compliance with all of the covenants under the Revolving Credit Facility.

**Mortgage Warehouse Borrowings**

The following is a summary of our mortgage subsidiary warehouse borrowings:

Facility	As of September 30, 2016		Interest Rate	Expiration Date	Collateral <sup>(1)</sup>
	Amount	Facility			
Flagstar	\$24,559	\$ 55,000	LIBOR + 2.5%	30 days written notice	Mortgage Loans
Comerica	19,183	50,000	LIBOR + 2.25%	November 16, 2016 <sup>(2)</sup>	Mortgage Loans
J.P. Morgan	47,424	100,000	LIBOR + 2.375%	September 25, 2017	Mortgage Loans and Pledged Cash
Total	\$91,166	\$ 205,000			

<sup>(1)</sup> The mortgage warehouse borrowings outstanding as of September 30, 2016, are collateralized by \$119.0 million of mortgage loans held for sale, which comprise the balance of mortgage loans held for sale and \$1.3 million of restricted short-term investments which are included in restricted cash in the accompanying Condensed Consolidated Balance Sheet.

<sup>(2)</sup> We are currently working to renew the Comerica facility. This facility has been in place for a number of years and the renewal process has been proceeding in a manner similar that in previous years.

**Loans Payable and Other Borrowings**

Loans payable and other borrowings as of September 30, 2016 consist of project-level debt due to various land sellers and seller financing notes from current and prior year acquisitions. Project-level debt is generally secured by the land that was acquired and the principal payments generally coincide with corresponding project lot sales or a principal reduction schedule. Loans payable bear interest at rates that ranged from 0% to 8% at September 30, 2016 and December 31, 2015. We impute interest for loans with no stated interest rates. The weighted average interest rate on \$109.6 million of the loans as of September 30, 2016 was 4.8% per annum, and \$33.2 million of the loans were non-interest bearing.

**Letters of Credit, Surety Bonds and Financial Guarantees**

The following table summarizes our letters of credit and surety bonds as of the dates indicated:

(Dollars in thousands)	As of	
	September 30, 2016	December 31, 2015
Letters of credit <sup>(1)</sup>	\$33,513	\$32,906
Surety bonds	360,073	361,941
Total outstanding letters of credit and surety bonds	\$393,586	\$394,847

<sup>(1)</sup> As of September 30, 2016 and December 31, 2015, there was \$200 million total capacity of letters of credit available under our Revolving Credit Facility.

Off-Balance Sheet Arrangements as of September 30, 2016

Investments in Land Development and Homebuilding Joint Ventures or Unconsolidated Entities

We participate in strategic land development and homebuilding joint ventures with related and unrelated third parties. The use of these entities, in some instances, enables us to acquire land to which we could not otherwise obtain access, or could not obtain access on terms that are as favorable. Our partners in these joint ventures historically have been land owners/developers, other homebuilders and financial or strategic partners. Joint ventures with land owners/developers have given us access to sites owned or controlled by our partners. Joint ventures with other homebuilders have provided us with the ability to bid jointly

## Table of Contents

with our partners for large or expensive land parcels. Joint ventures with financial partners have allowed us to combine our homebuilding expertise with access to our partners' capital.

In certain of our unconsolidated joint ventures, we enter into loan agreements, whereby one of our subsidiaries will provide the lenders with customary guarantees, including completion, indemnity and environmental guarantees subject to usual non-recourse terms.

For the nine months ended September 30, 2016, total net capital contributed to unconsolidated joint ventures was \$24.5 million.

### Land Purchase and Land Option Contracts

We enter into land purchase and option contracts to procure land or lots for the construction of homes in the ordinary course of business. Lot option contracts enable us to control significant lot positions with a minimal capital investment and substantially reduce the risks associated with land ownership and development. As of September 30, 2016, we had outstanding land purchase and lot option contracts of \$720.5 million. We are obligated to close the transaction under our land purchase contracts. However, our obligations with respect to the option contracts are generally limited to the forfeiture of the related non-refundable cash deposits and/or letters of credit provided to obtain the options.

### Seasonality

Our business is seasonal. We have historically experienced, and in the future expect to continue to experience, variability in our results on a quarterly basis. We generally have more homes under construction, close more homes and have greater revenues and operating income in the third and fourth quarters of the year. Therefore, although new home contracts are obtained throughout the year, a higher portion of our home closings occur during the third and fourth calendar quarters. Our revenue therefore may fluctuate significantly on a quarterly basis and we must maintain sufficient liquidity to meet short-term operating requirements. Factors expected to contribute to these fluctuations include:

- the timing of the introduction and start of construction of new projects;
- the timing of project sales;
- the timing of closings of homes, lots and parcels;
- our ability to continue to acquire land and options on that land on acceptable terms;
- the timing of receipt of regulatory approvals for development and construction;
- the condition of the real estate market and general economic conditions in the areas in which we operate;
- mix of homes closed;
- construction timetables;
- the prevailing interest rates and the availability of financing, both for us and for the purchasers of our homes;
- the cost and availability of materials and labor; and
- weather conditions in the markets in which we build.

As a result of seasonal activity, our quarterly results of operations and financial position are not necessarily representative of the results we expect at year end.

### Inflation

We and the homebuilding industry in general may be adversely affected during periods of high inflation, primarily because of higher land, financing, labor and construction material costs. In addition, higher mortgage interest rates can significantly affect the affordability of permanent mortgage financing to prospective homebuyers. We attempt to pass through to our customers increases in our costs through increased sales prices. However, during periods of soft housing market conditions, we may not be able to offset our cost increases with higher selling prices.

### Critical Accounting Policies

There have been no significant changes to our critical accounting policies during the nine months ended September 30, 2016 as compared to those we disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report.

Table of Contents

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

## Interest Rate Risk

Our operations are interest rate sensitive. We monitor our exposure to changes in interest rates and incur both fixed rate and variable rate debt. At September 30, 2016, approximately 82% of our debt was fixed rate and 18% was variable rate. None of our market sensitive instruments were entered into for trading purposes. For fixed rate debt, changes in interest rates generally affect the fair value of the debt instrument, but not our earnings or cash flows. Conversely, for variable rate debt, changes in interest rates generally do not impact the fair value of the debt instrument but may affect our future earnings and cash flows, and may also impact our variable rate borrowing costs, which principally relate to any borrowings under our Revolving Credit Facility and to any borrowings by TMHF under its various warehouse facilities. As of September 30, 2016, we had \$211.1 million outstanding borrowings under our Revolving Credit Facility, net of unamortized debt issuance costs. We had \$251.5 million of additional availability for borrowings and \$166.5 million of additional availability for letters of credit (giving effect to \$33.5 million of letters of credit outstanding as of such date). Our 2021 Senior Notes are subject to a requirement that we offer to purchase such notes at par with certain proceeds of asset sales (to the extent not otherwise applied in accordance with the indenture governing such notes). We are also required to offer to purchase all of the outstanding Senior Notes at 101% of their aggregate principal amount upon the occurrence of specified change of control events. Other than in those circumstances, we do not have an obligation to prepay fixed rate debt prior to maturity and, as a result, interest rate risk and changes in fair value would not be expected to have a significant impact on our cash flows related to our fixed rate debt until such time as we are required to refinance, repurchase or repay such debt.

We are not materially exposed to interest rate risk associated with TMHF's mortgage loan origination business because at the time any loan is originated, TMHF has identified the investor who will agree to purchase the loan on the interest rate terms that are locked in with the borrower at the time the loan is originated.

The following table sets forth principal cash flows by scheduled maturity and effective weighted average interest rates and estimated fair value of our debt obligations as of September 30, 2016. The interest rate for our variable rate debt represents the interest rate on our borrowings under our Revolving Credit Facility and mortgage warehouse facilities. Because the mortgage warehouse facilities are effectively secured by certain mortgage loans held for sale which are typically sold within approximately 20 - 30 days, its outstanding balance is included as a variable rate maturity in the most current period presented.

(In millions, except percentage data)	Expected Maturity Date							Total	Fair Value
	2016	2017	2018	2019	2020	Thereafter			
Fixed Rate Debt	\$45.3	\$35.1	\$28.4	\$16.5	\$7.1	\$1,260.4	\$1,392.8	\$1,437.8	
Weighted average interest rate <sup>(1)</sup>	3.7 %	3.7 %	3.7 %	3.7 %	3.7 %	5.5 %	5.3 %		
Variable Rate Debt <sup>(2)</sup>	\$91.2	\$—	\$—	\$215.0	\$—	\$—	\$306.2	\$306.2	
Weighted average interest rate	2.8 %	—	—	2.4 %	—	—	2.5 %		

<sup>(1)</sup> Represents the coupon rate of interest on the full principal amount of the debt.

<sup>(2)</sup> Based upon the amount of variable rate debt at September 30, 2016, and holding the variable rate debt balance constant, each 1% increase in interest rates would increase the interest incurred by us by approximately \$3.1 million per year.

## Currency Exchange Risk

In December 2014, we entered into a derivative financial instrument in the form of a foreign currency forward. The derivative financial instrument hedged our exposure to the Canadian dollar in conjunction with the disposition of the Monarch business. The final settlement of the derivative financial instrument occurred on January 30, 2015, and a gain in the amount of \$30.0 million was recorded in foreign currency forward in the accompanying Condensed Consolidated Statements of Operations for the nine months ended September 30, 2015.





Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our principal executive officer, principal financial officer and principal accounting officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of September 30, 2016. Based on this evaluation, our principal executive officer, principal financial officer and principal accounting officer concluded that, as of September 30, 2016, the Company's disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level. Consistent with guidance issued by the SEC, the scope of management's assessment of the effectiveness of our disclosure controls and procedures did not include the internal controls over financial reporting of the acquisition of Acadia Homes, which we acquired in January 2016 and which represented (excluding the acquired entities' capitalized interest, but including its goodwill), 2.4% of the Company's consolidated total assets and 1.8% of the Company's consolidated homebuilding revenues as of and for the quarter ended September 30, 2016.

Changes in Internal Controls over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended September 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

## PART II — OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

We are involved in various litigation and legal claims in the normal course of our business operations, including actions brought on behalf of various classes of claimants. We are also subject to a variety of local, state, and federal laws and regulations related to land development activities, house construction standards, sales practices, mortgage lending operations, employment practices, and protection of the environment. As a result, we are subject to periodic examination or inquiry by various governmental agencies that administer these laws and regulations. We establish liabilities for legal claims and regulatory matters when such matters are both probable of occurring and any potential loss is reasonably estimable. We accrue for such matters based on the facts and circumstances specific to each matter and revise these estimates as the matters evolve. In such cases, there may exist an exposure to loss in excess of any amounts currently accrued. In view of the inherent difficulty of predicting the outcome of these legal and regulatory matters, we generally cannot predict the ultimate resolution of the pending matters, the related timing or the eventual loss. While the outcome of such contingencies cannot be predicted with certainty, we do not believe that the resolution of such matters will have a material adverse impact on our results of operations, financial position, or cash flows. However, to the extent the liability arising from the ultimate resolution of any matter exceeds the estimates reflected in the recorded reserves relating to such matter, we could incur additional charges that could be significant.

## ITEM 1A. RISK FACTORS

There have been no material changes to the Risk Factors set forth in Part I, Item 1A. of our 2015 Annual Report on Form 10-K. These Risk Factors may materially affect our business, financial condition or results of operations. You should carefully consider the Risk Factors set forth in our 2015 Annual Report on Form 10-K and the other information set forth elsewhere in this quarterly report. You should be aware that these Risk Factors and other information may not describe every risk facing our Company.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## Issuer Purchases of Equity Securities

During the three months ended September 30, 2016, we repurchased the following number of shares of our Class A Common Stock:

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced plan or program	Approximate dollar value of shares that may yet be purchased under the plan or program (in thousands) (a)
July 1 to July 31, 2016	166,237	\$ 15.25	166,237	\$ 7,726
August 1 to August 31, 2016	46,000	\$ 15.95	46,000	\$ 6,991
September 1 to September 30, 2016	35,129	\$ 16.30	35,129	\$ 56,427
Total	247,366		247,366	

(a) Our Board of Directors has authorized the repurchase of up to \$100.0 million of the Company's Class A Common Stock through December 31, 2017 in open market purchases, privately negotiated transactions or other transactions. The stock repurchase program is subject to prevailing market conditions and other considerations, including our

liquidity, the terms of our debt instruments, planned land investment and development spending, acquisition and other investment opportunities and ongoing capital requirements. During the three and nine months ended September 30, 2016, there were an aggregate of 247,366 and 1,918,999 shares of Class A Common Stock repurchased for \$3.8 million and \$28.5 million, respectively. During the year ended December 31, 2015, there were an aggregate of 934,434 shares of Class A Common Stock repurchased for \$15.0 million.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

45

---

Table of Contents

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation (included as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on April 15, 2013, and incorporated herein by reference).
3.2	Amended and Restated By-laws (included as Exhibit 3.2 to the Company's Current Report on Form 8-K, filed on April 15, 2013, and incorporated herein by reference).
31.1*	Certification of Sheryl D. Palmer, Chief Executive Officer, pursuant to Section 302 of the Sarbanes–Oxley Act of 2002.
31.2*	Certification of C. David Cone, Chief Financial Officer, pursuant to Section 302 of the Sarbanes–Oxley Act of 2002.
32.1*	Certification of Sheryl D. Palmer, Chief Executive Officer, pursuant to Section 906 of the Sarbanes–Oxley Act of 2002.
32.2*	Certification of C. David Cone, Chief Financial Officer, pursuant to Section 906 of the Sarbanes–Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

\* Filed herewith

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

Table of Contents

SIGNATURES

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

TAYLOR MORRISON HOME CORPORATION

Registrant

DATE: November 2, 2016

/s/ Sheryl D. Palmer

Sheryl D. Palmer  
President and Chief Executive Officer  
(Principal Executive Officer)

/s/ C. David Cone

C. David Cone  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

/s/ Joseph Terracciano

Joseph Terracciano  
Chief Accounting Officer  
(Principal Accounting Officer)

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation (included as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on April 15, 2013, and incorporated herein by reference).
3.2	Amended and Restated By-laws (included as Exhibit 3.2 to the Company's Current Report on Form 8-K, filed on April 15, 2013, and incorporated herein by reference).
31.1*	Certification of Sheryl D. Palmer, Chief Executive Officer, pursuant to Section 302 of the Sarbanes–Oxley Act of 2002.
31.2*	Certification of C. David Cone, Chief Financial Officer, pursuant to Section 302 of the Sarbanes–Oxley Act of 2002.
32.1*	Certification of Sheryl D. Palmer, Chief Executive Officer, pursuant to Section 906 of the Sarbanes–Oxley Act of 2002.
32.2*	Certification of C. David Cone, Chief Financial Officer, pursuant to Section 906 of the Sarbanes–Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
	* Filed herewith

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.