Taylor Morrison Home Corp
Form 10-Q
August 03, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 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 incorporation or organization)	(I.R.S. Employer Identification No.)
4900 N. Scottsdale Road, Suite 2000 Scottsdale, Arizona	85251
(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 ý 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 ý 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 ý Accelerated filer ¨

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 ý
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 August 3, 2016
Class A common stock, $0.00001 par value	30,353,885
Class B common stock, $0.00001 par value	89,106,748

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TAYLOR MORRISON HOME CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts, unaudited)

	June 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$131,879	$ 126,188
Restricted cash	1,300	1,280
Real estate inventory:		
Owned inventory	3,242,308	3,118,866
Real estate not owned under option agreements	612	7,921
Total real estate inventory	3,242,920	3,126,787
Land deposits	38,615	34,113
Mortgage loans held for sale	145,963	201,733
Prepaid expenses and other assets, net	83,294	75,295
Other receivables, net	126,566	120,729
Investments in unconsolidated entities	149,844	128,448
Deferred tax assets, net	234,457	233,488
Property and equipment, net	6,334	7,387
Intangible assets, net	3,718	4,248
Goodwill	66,198	57,698
Total assets	$4,231,088	$ 4,117,394
Liabilities		
Accounts payable	$151,083	$ 151,861
Accrued expenses and other liabilities	175,284	191,452
Income taxes payable	15,608	37,792
Customer deposits	139,830	92,319
Senior notes, net	1,236,332	1,235,157
Loans payable and other borrowings	158,244	134,824
Revolving credit facility borrowings, net	210,705	109,947
Mortgage warehouse borrowings	118,099	183,444
Liabilities attributable to real estate not owned under option agreements	612	7,921
Total liabilities	2,205,797	2,144,717
COMMITMENTS AND CONTINGENCIES (Note 18)		
Stockholders' Equity		
Class A common stock, $0.00001 par value, 400,000,000 shares authorized, 33,172,189 and 33,158,855 shares issued, 30,566,122 and 32,224,421 shares outstanding as of June 30, 2016 and December 31, 2015, respectively	—	—
Class B common stock, $0.00001 par value, 200,000,000 shares authorized, 89,106,748 and 89,108,569 shares issued and outstanding as of June 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 June 30, 2016 and December 31, 2015	—	—
Additional paid-in capital	378,781	376,898

Treasury stock at cost; 2,606,067 and 934,434 shares as of June 30, 2016 and December 31, 2015, respectively	(39,691)	(14,981)
Retained earnings	194,495	175,997
Accumulated other comprehensive loss	(18,115)	(17,997)
Total stockholders’ equity attributable to Taylor Morrison Home Corporation	515,471	519,918
Non-controlling interests – joint ventures	6,614	6,398
Non-controlling interests – Principal Equityholders	1,503,206	1,446,361
Total stockholders’ equity	2,025,291	1,972,677
Total liabilities and stockholders’ equity	$4,231,088	$4,117,394

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements

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TAYLOR MORRISON HOME CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts, unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Home closings revenue, net	$829,882	$682,387	$1,458,969	$1,175,980
Land closings revenue	10,936	8,743	17,540	16,931
Mortgage operations revenue	13,498	9,843	23,136	17,478
Total revenues	854,316	700,973	1,499,645	1,210,389
Cost of home closings	679,685	553,652	1,194,217	958,757
Cost of land closings	6,686	4,566	12,318	9,232
Mortgage operations expenses	8,193	6,096	14,717	11,158
Total cost of revenues	694,564	564,314	1,221,252	979,147
Gross margin	159,752	136,659	278,393	231,242
Sales, commissions and other marketing costs	59,182	47,022	107,023	83,242
General and administrative expenses	31,710	24,204	61,134	44,908
Equity in income of unconsolidated entities	(2,305)	(1,225)	(3,087)	(1,527)
Interest income, net	(15)	(82)	(102)	(132)
Other expense, net	3,412	3,463	6,666	9,232
Loss on extinguishment of debt	—	33,317	—	33,317
Gain on foreign currency forward	—	—	—	(29,983)
Income from continuing operations before income taxes	67,768	29,960	106,759	92,185
Income tax provision	22,104	9,939	34,991	31,981
Net income from continuing operations	45,664	20,021	71,768	60,204
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	45,664	20,021	71,768	116,866
Net income attributable to non-controlling interests — joint ventures	(296)	(920)	(480)	(1,289)
Net income before non-controlling interests — Principal Equityholders	45,368	19,101	71,288	115,577
Net income from continuing operations attributable to non-controlling interests — Principal Equityholders	(33,683)	(14,024)	(52,790)	(43,157)
Net income from discontinued operations attributable to non-controlling interests — Principal Equityholders	—	—	—	(41,381)
Net income available to Taylor Morrison Home Corporation	$11,685	$5,077	$18,498	$31,039
Earnings per common share — basic:				
Income from continuing operations	$0.37	$0.15	$0.58	$0.48
Income from discontinued operations — net of tax	$—	$—	$—	$0.46
Net income available to Taylor Morrison Home Corporation	$0.37	$0.15	$0.58	$0.94
Earnings per common share — diluted:				
Income from continuing operations	$0.37	$0.15	$0.58	$0.48
Income from discontinued operations — net of tax	$—	$—	$—	$0.46
Net income available to Taylor Morrison Home Corporation	$0.37	$0.15	$0.58	$0.94
Weighted average number of shares of common stock:				
Basic	31,574	33,076	31,742	33,071

Diluted	121,052	122,409	121,217	122,382

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See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Income before non-controlling interests, net of tax	$45,664	$20,021	$71,768	$116,866
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments, net of tax	—	199	—	(27,214)
Post-retirement benefits adjustments, net of tax	—	—	(447)	1,757
Other comprehensive income (loss), net of tax	—	199	(447)	(25,457)
Comprehensive income	45,664	20,220	71,321	91,409
Comprehensive income attributable to non-controlling interests — joint ventures	(296)	(920)	(480)	(1,289)
Comprehensive income attributable to non-controlling interests — Principal Equityholders	(33,683)	(14,219)	(52,461)	(66,017)
Comprehensive income available to Taylor Morrison Home Corporation	$11,685	$5,081	$18,380	$24,103

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

	Common Stock				Additional Paid-in Capital	Treasury Stock		Stockholders' Equity			
	Class A		Class B								
	Shares	Amount	Shares	Amount	Amount	Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest - Joint Venture	Non-controlling Interest - Equityho
Balance – December 31, 2015	32,224,421	$—	89,108,569	$1	$376,898	934,434	$(14,981)	$175,997	$(17,997)	$6,398	$1,446,3
Net income	—	—	—	—	—	—	—	18,498	—	480	52,790
Other comprehensive loss	—	—	—	—	—	—	—	—	(118)	—	(329
Cancellation of forfeited New TMM Units and corresponding number of Class B Common Stock	—	—	(1,821)	—	—	—	—	—	—	—	—
Issuance of restricted stock units	13,334	—	—	—	—	—	—	—	—	—	—
Repurchase of common stock	(1,671,633)	—	—	—	—	1,671,633	(24,710)	—	—	—	—
Share based compensation	—	—	—	—	1,533	—	—	—	—	—	4,384
Contributions from/(Distributions to) non-controlling interests of consolidated joint ventures	—	—	—	—	350	—	—	—	—	(264)	—
Balance – June 30, 2016	30,566,122	$—	89,106,748	$1	$378,781	2,606,067	$(39,691)	$194,495	$(18,115)	$6,614	$1,503,2

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

	Six Months Ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income before allocation to non-controlling interests	$71,768	$116,866
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in income of unconsolidated entities	(3,087)	(1,527)
Stock compensation expense	5,917	3,596
Loss on extinguishment of debt	—	33,317
Distributions of earnings from unconsolidated entities	1,673	1,437
Depreciation and amortization	1,974	1,852
Debt issuance costs amortization	1,933	2,527
Net income from discontinued operations	—	(56,662)
Gain on foreign currency forward	—	(29,983)
Contingent consideration	2,349	6,705
Deferred income taxes	(969)	6,798
Changes in operating assets and liabilities:		
Real estate inventory and land deposits	(62,906)	(391,680)
Mortgages held for sale, prepaid expenses and other assets	43,734	23,728
Customer deposits	47,049	28,597
Accounts payable, accrued expenses and other liabilities	(21,584)	(17,617)
Income taxes payable	(22,185)	(20,862)
Net cash provided by (used in) operating activities	65,666	(292,908)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(187)	(1,499)
Payments for business acquisitions	(52,819)	(62,440)
Distribution from unconsolidated entities	1,656	6,857
Change in restricted cash	(20)	655
Investments of capital into unconsolidated entities	(21,638)	(24,950)
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	(73,008)	217,459
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in loans payable and other borrowings	36,631	—
Repayments of loans payable and other borrowings	(30,529)	(24,449)
Borrowings on revolving credit facility	240,000	115,000
Payments on revolving credit facility	(140,000)	(50,000)
Borrowings on mortgage warehouse	527,027	354,812
Repayment on mortgage warehouse	(592,372)	(444,077)
Proceeds from the issuance of senior notes	—	350,000
Repayments on senior notes	—	(513,608)
Repurchase of common stock	(24,710)	—
Payment of deferred financing costs	—	(4,538)
Payment of contingent consideration	(3,100)	(3,050)
	86	(1,373)

Contributions from (distributions to) non-controlling interests of consolidated joint ventures, net		
Net cash provided by (used in) financing activities	13,033	(221,283)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	(19,927)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	$5,691	$(316,659)
CASH AND CASH EQUIVALENTS — Beginning of period [1]	126,188	462,205
CASH AND CASH EQUIVALENTS — End of period	$131,879	$145,546
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income taxes paid, net	$(58,144)	$(59,810)
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Change in loans payable issued to sellers in connection with land purchase contracts	$22,708	$(28,554)
Accrual of contingent consideration	$380	$3,200
Non-cash portion of loss on debt extinguishment	$—	$5,102

(1) 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

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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 three and six months ended June 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 to their respective debt liability.

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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, 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 six months ended June 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 a component of 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.

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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 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 six months ended June 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 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.

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Revenue Recognition

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 March 2016, the Financial Accounting Standards Board ("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 are currently evaluating the impact the adoption of ASU 2016-09 will have on our condensed consolidated financial statements and disclosures.

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 are currently evaluating the impact the adoption of ASU 2016-02 will have 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

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 and 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

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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.

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

The Company has completed an allocation of purchase price as of the acquisition date and expects to finalize the allocation within one year from the date of acquisition. 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 [1]	8,500
Total assets	$86,656
Less liabilities assumed	
Accrued expenses and other liabilities	$2,562
Customer deposits	463
Net assets acquired	$83,631

[1] Goodwill is fully deductible for tax purposes. The goodwill was allocated to our East homebuilding segment.

2015 Acquisitions

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):

	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(1)	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

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(1) 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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Numerator:				
Net income available to TMHC – basic	$11,685	$5,077	$18,498	$31,039
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	$11,685	$5,077	$18,498	$15,758
Net income from continuing operations – basic	$11,685	$5,077	$18,498	$15,758
Net income from continuing operations attributable to non-controlling interest – Principal Equityholders	33,683	14,024	52,790	43,157
Loss fully attributable to public holding company	100	110	173	229
Net income from continuing operations – diluted	$45,468	$19,211	$71,461	$59,144
Net income from discontinued operations – diluted	$—	$—	$—	$56,662
Denominator:				
Weighted average shares – basic (Class A)	31,574	33,076	31,742	33,071
Weighted average shares – Principal Equityholders' non-controlling interest (Class B)	89,107	89,200	89,107	89,203
Restricted stock units	366	133	367	108
Stock Options	5	—	1	—
Weighted average shares – diluted	121,052	122,409	121,217	122,382
Earnings per common share – basic:				
Income from continuing operations	$0.37	$0.15	$0.58	$0.48
Income from discontinued operations, nets of tax	$—	$—	$—	$0.46
Net income available to Taylor Morrison Home Corporation	$0.37	$0.15	$0.58	$0.94
Earnings per common share – diluted:				
Income from continuing operations	$0.37	$0.15	$0.58	$0.48
Income from discontinued operations, net of tax	$—	$—	$—	$0.46
Net income available to Taylor Morrison Home Corporation	$0.37	$0.15	$0.58	$0.94

We excluded a total weighted average of 1,602,935 and 1,580,186 stock options and unvested restricted stock units ("RSUs") and 2,361,178 and 1,546,380 stock options and unvested RSUs from the calculation of earnings per share for the three and six months ended June 30, 2016 and 2015, respectively, as their inclusion would be anti-dilutive.

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

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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 six months ended June 30, 2015.

No revenues or expenses related to the operations of Monarch were recorded in 2015, however, the recorded activity for the six months ended June 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 June 30, 2016 and December 31, 2015. For the six months ended June 30, 2016, there was no activity recorded related to Monarch or its operations.

6. DERIVATIVE FINANCIAL INSTRUMENT

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 six months ended June 30, 2015. There was no activity related to derivative financial instruments for the three and six months ended June 30, 2016.

7. REAL ESTATE INVENTORY AND LAND DEPOSITS

Inventory consists of the following (in thousands):

	As of June 30, 2016	December 31, 2015
Real estate developed and under development	$2,184,842	$2,167,771
Real estate held for development or held for sale [1]	187,869	173,448
Operating communities [2]	758,534	672,499
Capitalized interest	111,063	105,148
Total owned inventory	3,242,308	3,118,866
Real estate not owned under option agreements	612	7,921
Total real estate inventory	$3,242,920	$3,126,787

[1] 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 mothball communities.

[2] 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 June 30, 2016		December 31, 2015	
	Owned Lots	Book Value of Land and Development	Owned Lots	Book Value of Land and Development
Raw	7,042	$ 349,391	8,300	$ 378,081
Partially developed	7,942	490,327	8,904	645,276
Finished	13,478	1,520,755	12,294	1,305,697
Long-term strategic assets	3,105	12,238	3,105	12,165
Total	31,567	$ 2,372,711	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.

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As of June 30, 2016 and December 31, 2015, we had the right to purchase 9,196 and 8,888 lots under land option purchase contracts, respectively, for an aggregate purchase price of $753.7 million and $710.6 million as of June 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 June 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 $38.6 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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest capitalized - beginning of period	$110,962	$103,892	$105,148	$94,880
Interest incurred	22,201	23,268	44,445	48,307
Interest amortized to cost of home closings	(22,100)	(20,690)	(38,530)	(36,717)
Interest capitalized - end of period	$111,063	$106,470	$111,063	$106,470

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	
	June 30, 2016	December 31, 2015
Assets:		
Real estate inventory	$612,478	$586,359
Other assets	170,713	119,781
Total assets	$783,191	$706,140
Liabilities and owners' equity:		
Debt	$283,845	$273,769
Other liabilities	28,544	11,239
Total liabilities	312,389	285,008
Owners' equity:		
TMHC	149,844	128,448
Others	320,958	292,684
Total owners' equity	470,802	421,132
Total liabilities and owners' equity	$783,191	$706,140

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues	$37,042	$15,777	$49,662	$17,473
Costs and expenses	(30,110)	(12,859)	(40,220)	(14,030)
Income of unconsolidated entities	$6,932	$2,918	$9,442	$3,443
TMHC's share in income of unconsolidated entities	$2,305	$1,225	$3,087	$1,527
Distributions of earnings from unconsolidated entities	$3,218	$7,787	$3,329	$8,294

We have investments in, and advances to, 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

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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):

	As of June 30, 2016	As of December 31, 2015
Real estate development costs to complete	$13,126	$21,325
Compensation and employee benefits	42,541	47,674
Self-insurance and warranty reserves	44,342	43,098
Interest payable	17,975	18,621
Property and sales taxes payable	9,776	15,233
Other accruals	47,524	45,501
Total accrued expenses and other liabilities	$175,284	$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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Reserve - beginning of period	$43,195	$42,956	$43,098	$44,595
Additions to reserves	5,015	4,814	10,783	7,514
Costs and claims incurred	(5,962)	(5,516)	(12,547)	(11,450)
Change in estimates to pre-existing reserves	2,094	335	3,008	1,930
Reserve - end of period	$44,342	$42,589	$44,342	$42,589

10. DEBT

Total debt consists of the following (in thousands):

	As of June 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	$ 5,688	$544,312	$550,000	$ 6,287	$543,713
5.875% Senior Notes due 2023, unsecured	350,000	3,853	346,147	350,000	4,160	345,840
5.625% Senior Notes due 2024, unsecured	350,000	4,127	345,873	350,000	4,396	345,604
Senior Notes subtotal	1,250,000	13,668	1,236,332	1,250,000	14,843	1,235,157
Loans payable and other borrowings	158,244	—	158,244	134,824	—	134,824
Revolving Credit Facility	215,000	4,295	210,705	115,000	5,053	109,947
Mortgage warehouse borrowings	118,099	—	118,099	183,444	—	183,444
Total Senior Notes and bank financing	$1,741,343	$ 17,963	$1,723,380	$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”).

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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 (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.

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.

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$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.

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 June 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 June 30, 2016				
Facility	Amount Drawn	Facility Amount	Interest Rate	Expiration Date	Collateral (1)
Flagstar	$28,453	$ 30,000	LIBOR + 2.5%	30 days written notice	Mortgage Loans
Comerica	33,161	50,000	LIBOR + 2.25%	November 16, 2016	Mortgage Loans
J.P. Morgan	56,485	100,000	LIBOR + 2.375%	September 26, 2016	Mortgage Loans and Pledged Cash
Total	$118,099	$ 180,000			

	As of December 31, 2015				
Facility	Amount Drawn	Facility Amount	Interest Rate	Expiration Date	Collateral (1)
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			

(1) The mortgage warehouse borrowings outstanding as of June 30, 2016 and December 31, 2015, are collateralized by $146.0 million and $201.7 million, respectively, of mortgage loans held for sale, which comprise the balance of mortgage loans held for sale and $1.3 million, for both periods presented, which are included in restricted cash in the accompanying Condensed Consolidated Balance Sheets.

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(2) 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

Loans payable and other borrowings as of June 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 June 30, 2016 and December 31, 2015. We impute interest for loans with no stated interest rates. The weighted average interest rate on $107.5 million of the loans as of June 30, 2016 was 5.1% per annum, and $50.7 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):

		June 30, 2016		December 31, 2015	
	Level in Fair Value Hierarchy	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Description:					
Mortgage loans held for sale	2	$145,963	$145,963	$201,733	$201,733
Mortgage warehouse borrowings	2	118,099	118,099	183,444	183,444
Loans payable and other borrowings	2	158,244	158,244	134,824	134,824
5.25% Senior Notes due 2021 (1)	2	544,312	548,625	543,713	552,750

5.875% Senior Notes due 2023 [1]	2	346,147	349,125	345,840	346,500
5.625% Senior Notes due 2024 [1]	2	345,873	341,250	345,604	336,000
Revolving Credit Facility [1]	2	210,705	215,000	109,947	115,000
Contingent consideration liability	3	15,711	15,711	20,082	20,082

[1] 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

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The effective tax rate for the three and six months ended June 30, 2016 and June 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 preferential treatment of deductions and credits relating to homebuilding activities.

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

In accordance with ASC Topic 740-10, Income Taxes, we assess whether a valuation allowance should be established based on the consideration of available evidence using a “more likely than not” standard with significant weight being given to evidence that can be objectively verified. This assessment includes a review of both positive and negative evidence including our earnings history, forecasts and future profitability, assessment of the industry, the length of statutory carry-forward periods, experiences of utilizing net operating losses and built-in losses, and tax planning alternatives.

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 June 30, 2016 are as follows:

	Shares Outstanding	Percentage	
Class A Common Stock	30,566,122	25.5	%
Class B Common Stock	89,106,748	74.5	%
Total	119,672,870	100	%

Stock Repurchase Program

Our Board of Directors has authorized the repurchase of up to $50.0 million of the Company’s Class A Common Stock through December 31, 2016 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 six months ended June 30, 2016, there were an aggregate of 1,333,873 and 1,671,633 shares of Class A Common Stock repurchased for $19.7 million and $24.7 million, respectively. During the quarter and year ended December 31, 2015, there were an aggregate of 934,434 shares of Class A Common Stock repurchased for $15.0 million.

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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 June 30, 2016 we had an aggregate of 3,852,036 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Restricted stock units (RSUs) [1]	$1,755	$818	$3,138	$1,426
Stock options	1,061	828	2,018	2,798
New TMM units	381	393	761	912
Total stock compensation [2]	$3,197	$2,039	$5,917	$5,136
Income tax expense recognized	$(20)	$(3)	$(22)	$(7)

[1] Includes compensation expense related to time-based RSUs and performance-based RSUs.

[2] Included in the table above for the six months ended June 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 six months ended June 30, 2015.

At June 30, 2016 and December 31, 2015, the aggregate unrecognized value of all outstanding stock-based compensation awards was approximately $25.7 million and $15.2 million, respectively.

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

	Shares	Weighted Average Grant Date Fair Value
Balance at December 31, 2015	441,296	$ 13.55
Granted	1,083,345	11.37
Vested	(13,334)	19.50
Forfeited	(36,824)	13.38
Balance at June 30, 2016	1,474,483	$ 13.38

During the three and six months ended June 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 six months ended June 30, 2016:

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	Shares	Weighted Average Exercise Price Per Share
Outstanding at December 31, 2015	1,507,765	$ 21.07
Granted	1,133,642	11.54
Canceled/Forfeited	(37,790)	13.58
Outstanding at June 30, 2016	2,603,617	$ 17.03
Options exercisable at June 30, 2016	623,133	$ 21.52

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 Class M Units were settled pursuant to change in control provisions provided for in the award agreement. In the six months ended June 30, 2015, we paid $1.4 million in settlement of these awards; there was no activity for the six months ended June 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 June 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
Forfeited [2]	(1,821)	10.20
Balance at June 30, 2016	1,311,053	$ 5.83

[1] 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.
[2] 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 six months ended June 30, 2016, there were no such transactions. For the three and six months ended June 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 June 30, 2016, therefore is not presented below.

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	Six Months Ended June 30, 2016			
	Total Post-Retirement Benefits Adjustments	Foreign Currency Translation Adjustments	Non-controlling Interest - Principal Equityholders Reclassification	Total
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)

	Three Months Ended June 30, 2015			
	Total Post-Retirement Benefits Adjustments	Foreign Currency Translation Adjustments	Non-controlling Interest - Principal Equityholders Reclassification	Total
Balance, beginning of period	$678	$(79,561)	$ 61,033	$(17,850)
Other comprehensive income before reclassifications	—	199	—	199
Other comprehensive income, net of tax	$—	$199	$ —	$199
Gross amounts reclassified within accumulated other comprehensive income	—	—	(195)	(195)
Balance, end of period	$678	$(79,362)	$ 60,838	$(17,846)

	Six Months Ended June 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	(27,214)	—	(26,945)
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	$(27,214)	$ (518)	$(25,457)
Gross amounts reclassified within accumulated other comprehensive (loss)/income	(2,289)	—	20,810	18,521
Balance, end of period	$678	$(79,362)	$ 60,838	$(17,846)

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. Among 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 segments into reporting segments based on similar long-term economic characteristics. We also have a mortgage and title services 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 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):

	Three Months Ended June 30, 2016					
	East	Central	West	Mortgage Operations	Corporate and Unallocated	Total
Total revenues	$255,806	$242,010	$343,002	$ 13,498	$ —	$854,316
Gross margin	52,828	43,830	57,789	5,305	—	159,752
Selling, general and administrative expenses	(25,813)	(23,159)	(22,828)	—	(19,092)	(90,892)
Equity in income/(loss) of unconsolidated entities	308	(164)	740	1,421	—	2,305
Interest and other (expense)/income, net	(777)	(394)	(1,131)	10	(1,105)	(3,397)
Income from continuing operations before income taxes	$26,546	$20,113	$34,570	$ 6,736	$ (20,197)	$67,768

	Three Months Ended June 30, 2015					
	East	Central	West	Mortgage Operations	Corporate and Unallocated	Total
Total revenues	$181,847	$263,284	$245,999	$ 9,843	$ —	$700,973
Gross margin	39,844	51,233	41,835	3,747	—	136,659
Selling, general and administrative expenses	(16,499)	(21,954)	(17,193)	—	(15,580)	(71,226)
Equity in income/(loss) of unconsolidated entities	241	471	(242)	755	—	1,225
Interest and other (expense)/income, net	(745)	(3,595)	813	—	146	(3,381)
Loss on extinguishment of debt	—	—	—	—	(33,317)	(33,317)
Income from continuing operations before income taxes	$22,841	$26,155	$25,213	$		