Taylor Morrison Home Corp
Form 10-Q
May 04, 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 March 31, 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 May 4, 2016
Class A common stock, $0.00001 par value	31,886,661
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)

	March 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$141,124	$126,188
Restricted cash	1,280	1,280
Real estate inventory:		
Owned inventory	3,295,803	3,118,866
Real estate not owned under option agreements	995	7,921
Total real estate inventory	3,296,798	3,126,787
Land deposits	31,193	34,113
Mortgage loans held for sale	109,174	201,733
Prepaid expenses and other assets, net	88,326	75,295
Other receivables, net	126,406	120,729
Investments in unconsolidated entities	144,278	128,448
Deferred tax assets, net	233,749	233,488
Property and equipment, net	7,483	7,387
Intangible assets, net	3,983	4,248
Goodwill	66,198	57,698
Total assets	$4,249,992	$4,117,394
Liabilities		
Accounts payable	$154,897	$151,861
Accrued expenses and other liabilities	178,598	191,452
Income taxes payable	8,944	37,792
Customer deposits	123,273	92,319
Senior notes, net	1,235,733	1,235,157
Loans payable and other borrowings	154,243	134,824
Revolving credit facility borrowings, net	305,326	109,947
Mortgage warehouse borrowings	91,996	183,444
Liabilities attributable to real estate not owned under option contracts	995	7,921
Total liabilities	2,254,005	2,144,717
COMMITMENTS AND CONTINGENCIES (Note 18)		
Stockholders' Equity		
Class A common stock, $0.00001 par value, 400,000,000 shares authorized, 33,158,855 and 33,158,855 shares issued and 31,886,661 and 32,224,421 outstanding as of March 31, 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 March 31, 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 March 31, 2016 and December 31, 2015	—	—
Additional paid-in capital	377,616	376,898

Treasury stock at cost; 1,272,194 and 934,434 shares as of March 31, 2016 and December 31, 2015, respectively	(19,974)	(14,981)
Retained earnings	182,810	175,997
Accumulated other comprehensive loss	(18,115)	(17,997)
Total stockholders’ equity attributable to Taylor Morrison Home Corporation	522,338	519,918
Non-controlling interests – joint ventures	6,508	6,398
Non-controlling interests – Principal Equityholders	1,467,141	1,446,361
Total stockholders’ equity	1,995,987	1,972,677
Total liabilities and stockholders’ equity	$4,249,992	$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 March 31,	
	2016	2015
Home closings revenue, net	$629,088	$493,592
Land closings revenue	6,602	8,188
Mortgage operations revenue	9,639	7,635
Total revenues	645,329	509,415
Cost of home closings	514,532	405,104
Cost of land closings	5,632	4,666
Mortgage operations expenses	6,524	5,062
Total cost of revenues	526,688	414,832
Gross margin	118,641	94,583
Sales, commissions and other marketing costs	47,841	36,220
General and administrative expenses	29,424	20,704
Equity in income of unconsolidated entities	(782)	(303)
Interest income, net	(87)	(50)
Other expense, net	3,254	5,771
Gain on foreign currency forward	—	(29,983)
Income from continuing operations before income taxes	38,991	62,224
Income tax provision	12,887	22,042
Net income from continuing operations	26,104	40,182
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	26,104	96,844
Net income attributable to non-controlling interests — joint ventures	(184)	(368)
Net income before non-controlling interests — Principal Equityholders	25,920	96,476
Net income from continuing operations attributable to non-controlling interests — Principal Equityholders	(19,107)	(29,133)
Net income from discontinued operations attributable to non-controlling interests — Principal Equityholders	—	(41,381)
Net income available to Taylor Morrison Home Corporation	$6,813	$25,962
Earnings per common share — basic:		
Income from continuing operations	$0.21	$0.33
Income from discontinued operations — net of tax	$—	$0.46
Net income available to Taylor Morrison Home Corporation	$0.21	$0.79
Earnings per common share — diluted:		
Income from continuing operations	$0.21	$0.33
Income from discontinued operations — net of tax	$—	$0.46
Net income available to Taylor Morrison Home Corporation	$0.21	$0.79
Weighted average number of shares of common stock:		
Basic	31,923	33,067
Diluted	121,267	122,355

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 March 31,	
	2016	2015
Income before non-controlling interests, net of tax	$26,104	$96,844
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments, net of tax	—	(27,413)
Post-retirement benefits adjustments, net of tax	(447)	1,757
Other comprehensive loss, net of tax	(447)	(25,656)
Comprehensive income	25,657	71,188
Comprehensive income attributable to non-controlling interests — joint ventures	(184)	(368)
Comprehensive income attributable to non-controlling interests — Principal Equityholders	(18,778)	(51,798)
Comprehensive income available to Taylor Morrison Home Corporation	$6,695	$19,022

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										
	Class A		Class B		Additional Paid-in Capital	Treasury Stock		Stockholders' Equity			
	Shares	Amount	Shares	Amount	Amount	Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest - Joint Venture	Non-control Interest - Pri Equityholde
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	—	—	—	—	—	—	—	6,813	—	184	19,107
Other comprehensive loss	—	—	—	—	—	—	—	—	(118)	—	(329)
Cancellation of forfeited New TMM Units and corresponding number of Class B Common Stock	—	—	(1,821)	—	—	—	—	—	—	—	—
Repurchase of common stock	(337,760)	—	—	—	—	337,760	(4,993)	—	—	—	—
Share based compensation	—	—	—	—	718	—	—	—	—	—	2,002
Distributions to non-controlling interests of consolidated joint ventures	—	—	—	—	—	—	—	—	—	(74)	—
Balance – March 31, 2016	31,886,661	$—	89,106,748	$1	$377,616	1,272,194	$(19,974)	$182,810	$(18,115)	$6,508	$1,467,141

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)

	Three Months Ended March 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income before allocation to non-controlling interests	$26,104	$96,844
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in income of unconsolidated entities	(782)	(303)
Stock compensation expense	2,720	1,558
Distributions of earnings from unconsolidated entities	111	507
Depreciation and amortization	1,078	861
Net income from discontinued operations	—	(56,662)
Gain on foreign currency forward	—	(29,983)
Contingent consideration	1,097	1,676
Deferred income taxes	(261)	6,798
Changes in operating assets and liabilities:		
Real estate inventory and land deposits	(108,979)	(246,993)
Mortgages held for sale, prepaid expenses and other assets	75,650	67,888
Customer deposits	30,492	14,495
Accounts payable, accrued expenses and other liabilities	(14,965)	(15,952)
Income taxes payable	(28,848)	(10,912)
Net cash used in operating activities	(16,583)	(170,178)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(705)	(317)
Payments for business acquisitions	(52,819)	—
Decrease in restricted cash	—	655
Investments of capital into unconsolidated entities	(15,159)	(2,726)
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	(68,683)	296,448
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loans payable and other borrowings	23,659	—
Repayments of loans payable and other borrowings	(21,558)	(20,167)
Borrowings on revolving credit facility	230,000	—
Payments on revolving credit facility	(35,000)	(40,000)
Borrowings on mortgage warehouse	211,350	158,638
Repayment on mortgage warehouse	(302,798)	(264,143)
Repurchase of common stock, net	(4,993)	—
Payment of contingent consideration	(384)	(3,050)
Distributions to non-controlling interests of consolidated joint ventures	(74)	(272)
Net cash provided by (used in) financing activities	100,202	(168,994)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	(19,944)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	$14,936	$(62,668)
CASH AND CASH EQUIVALENTS — Beginning of period[1]	126,188	462,205
CASH AND CASH EQUIVALENTS — End of period	$141,124	$399,537
SUPPLEMENTAL CASH FLOW INFORMATION:		

Income taxes paid, net	$(42,184)	$(40,067)
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Change in loans payable issued to sellers in connection with land purchase contracts	$16,931	$(21,400)
Accrual of contingent consideration	$380	$—

(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

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 four reportable segments: East, Central, West and Mortgage Operations. The communities in our homebuilding segments 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").

On January 8, 2016, we completed the acquisition of Acadia Homes in Atlanta, Georgia, yielding approximately 1,100 lots for total consideration transferred of $83.6 million. See Note 3 - Business Combinations for further information.

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 Statements of Stockholders' Equity.

Discontinued Operations –As a result of our decision in December 2014 to dispose 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 months ended March 31, 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.

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 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 Accounting Standards Codification ("ASC") Topic 805-10, Business Combinations. In connection with our acquisitions, we determined we obtained control of a business and 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 months ended March 31, 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 us. If we decide to cease developing a project, we will impair such project if necessary to its fair value as discussed above and then cease future development and/or 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 contracts to acquire lots. Real estate not owned under these contracts is consolidated into real estate inventory with a corresponding liability in liabilities attributable to real estate not owned under option contracts 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 and Option Agreements — 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, including us, and others develop land for sale to the joint 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 months ended March 31, 2016 and 2015.

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 settlement 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, and the buyer has demonstrated sufficient initial and continuing 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 initial and continuing investment in the property sold. If the buyer has not made an adequate initial or continuing 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,” since TMHF does not have continuing involvement with the transferred assets, 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 Accounting Standards Update (“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 a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. In doing so, companies 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 (including $19.3 million of seller financing and holdbacks, and contingent consideration) of $83.6 million. In the prior year, we acquired JEH Homes, an Atlanta based homebuilder, on April 30, 2015 and three divisions of Orleans Homes in Charlotte, Raleigh and Chicago on

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July 21, 2015 for combined total consideration (including seller financing and contingent consideration) of $233.7 million. 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.

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 a preliminary 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 [2]	$83,631

[1] Goodwill is fully deductible for tax purposes.
[2] Contingent consideration of $380,000 is included in the fair value of net assets acquired.

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):

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	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(2)	$66,380	$167,314	$233,694

(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 operating segments, respectively.
(2) Contingent consideration of $3.2 million is included in the fair value of net assets acquired.

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):

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	Three Months Ended March 31,	
	2016	2015
Numerator:		
Net income available to TMHC – basic	$6,813	$25,962
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	$6,813	$10,681
Net income from continuing operations – basic	$6,813	$10,681
Net income from continuing operations attributable to non-controlling interest – Principal Equityholders	19,107	29,133
Loss fully attributable to public holding company	72	119
Net income from continuing operations – diluted	$25,992	$39,933
Net income from discontinued operations – diluted	$—	$56,662
Denominator:		
Weighted average shares – basic (Class A)	31,923	33,067
Weighted average shares – Principal Equityholders' non-controlling interest (Class B)	89,107	89,204
Restricted stock units	237	84
Weighted average shares – diluted	121,267	122,355
Earnings per common share – basic:		
Income from continuing operations	$0.21	$0.33
Income from discontinued operations, nets of tax	$—	$0.46
Net income available to Taylor Morrison Home Corporation	$0.21	$0.79
Earnings per common share – diluted:		
Income from continuing operations	$0.21	$0.33
Income from discontinued operations, net of tax	$—	$0.46
Net income available to Taylor Morrison Home Corporation	$0.21	$0.79

We excluded a total weighted average of 2,136,552 and 1,515,967 stock options and unvested restricted stock units ("RSUs") from the calculation of earnings per share for the three months ended March 31, 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

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 three months ended March 31, 2015. There were no assets and liabilities of discontinued operations at March 31, 2016 and December 31, 2015.

For the three months ended March 31, 2016, there was no activity recorded related to Monarch or its operations. No revenues or expenses related to the operations of Monarch were recorded in 2015, however, the recorded activity for the three months ended March 31, 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 tax.

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.

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The aggregate notional amount of the foreign exchange derivative financial instrument was $471.2 million at December 31, 2014. At December 31, 2014, the fair value of the instrument was not material to our consolidated financial position or results of operations.

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 three months ended March 31, 2015. There was no activity related to derivative financial instruments for the three months ended March 31, 2016.

7. REAL ESTATE INVENTORY AND LAND DEPOSITS

Inventory consists of the following (in thousands):

	As of March 31, 2016	December 31, 2015
Real estate developed and under development	$2,246,079	$2,167,771
Real estate held for development or held for sale [(1)]	187,263	173,448
Operating communities [(2)]	751,499	672,499