Taylor Morrison Home Corp
Form 10-Q
August 01, 2018
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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, 2018
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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨

Emerging growth company ¨

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No 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 1, 2018
Class A common stock, $0.00001 par value	111,392,354
Class B common stock, $0.00001 par value	863,434

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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, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$320,102	$573,925
Restricted cash	1,319	1,578
Total cash, cash equivalents, and restricted cash	321,421	575,503
Owned inventory	3,194,241	2,956,709
Real estate not owned under option agreements	1,462	2,527
Total real estate inventory	3,195,703	2,959,236
Land deposits	40,514	49,768
Mortgage loans held for sale	99,606	187,038
Derivative assets	2,888	1,584
Prepaid expenses and other assets, net	52,029	72,334
Other receivables, net	94,320	94,488
Investments in unconsolidated entities	189,733	192,364
Deferred tax assets, net	117,892	118,138
Property and equipment, net	38,916	7,112
Intangible assets, net	1,601	2,130
Goodwill	66,198	66,198
Total assets	$4,220,821	$4,325,893
Liabilities		
Accounts payable	$160,051	$140,165
Accrued expenses and other liabilities	167,315	201,540
Income taxes payable	14,454	4,525
Customer deposits	191,893	132,529
Senior notes, net	1,240,938	1,239,787
Loans payable and other borrowings	136,508	139,453
Revolving credit facility borrowings	—	—
Mortgage warehouse borrowings	49,818	118,822
Liabilities attributable to real estate not owned under option agreements	1,462	2,527
Total liabilities	1,962,439	1,979,348
COMMITMENTS AND CONTINGENCIES (Note 15)		
Stockholders' Equity		
Class A common stock, $0.00001 par value, 400,000,000 shares authorized, 114,436,481 and 85,449,253 shares issued, 111,387,224 and 82,399,996 shares outstanding as of June 30, 2018 and December 31, 2017, respectively	1	1
Class B common stock, $0.00001 par value, 200,000,000 shares authorized, 863,434 and 37,179,616 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	—	—
Preferred stock, $0.00001 par value, 50,000,000 shares authorized, no shares issued and outstanding as of June 30, 2018 and December 31, 2017	—	—

Additional paid-in capital	1,877,468	1,341,873
Treasury stock at cost, 3,049,257 shares as of June 30, 2018 and December 31, 2017	(47,622)	(47,622)
Retained earnings	425,238	319,833
Accumulated other comprehensive loss	(17,968)	(17,968)
Total stockholders' equity attributable to Taylor Morrison Home Corporation	2,237,117	1,596,117
Non-controlling interests – joint ventures	1,359	1,663
Non-controlling interests	19,906	748,765
Total stockholders' equity	2,258,382	2,346,545
Total liabilities and stockholders' equity	$4,220,821	$4,325,893

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,	
	2018	2017	2018	2017
Home closings revenue, net	$956,565	$889,096	$1,689,524	$1,640,581
Land closings revenue	7,997	3,764	13,165	7,120
Financial services revenue	16,266	15,634	30,472	29,883
Total revenues	980,828	908,494	1,733,161	1,677,584
Cost of home closings	784,521	724,505	1,379,427	1,340,800
Cost of land closings	6,444	2,467	10,725	4,867
Financial services expenses	11,152	10,102	21,196	18,804
Total cost of revenues	802,117	737,074	1,411,348	1,364,471
Gross margin	178,711	171,420	321,813	313,113
Sales, commissions and other marketing costs	64,604	61,516	118,302	117,133
General and administrative expenses	35,461	33,894	68,778	67,022
Equity in income of unconsolidated entities	(4,017)	(3,071)	(7,263)	(4,156)
Interest income, net	(276)	(89)	(619)	(179)
Other expense, net	3,654	764	4,092	413
Income before income taxes	79,285	78,406	138,523	132,880
Income tax provision	19,993	22,476	31,699	41,349
Net income before allocation to non-controlling interests	59,292	55,930	106,824	91,531
Net income attributable to non-controlling interests — joint ventures	(140)	(207)	(269)	(198)
Net income before non-controlling interests	59,152	55,723	106,555	91,333
Net income attributable to non-controlling interests	(474)	(28,322)	(3,133)	(54,164)
Net income available to Taylor Morrison Home Corporation	$58,678	$27,401	$103,422	$37,169
Earnings per common share				
Basic	$0.53	$0.46	$0.94	$0.76
Diluted	$0.52	$0.46	$0.93	$0.76
Weighted average number of shares of common stock:				
Basic	111,347	58,977	110,508	48,822
Diluted	113,482	121,061	115,400	120,895

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,	
	2018	2017	2018	2017
Income before non-controlling interests, net of tax	$59,292	$55,930	$106,824	$91,531
Comprehensive income attributable to non-controlling interests — joint ventures	(140)	(207)	(269)	(198)
Comprehensive income attributable to non-controlling interests	(474)	(28,322)	(3,133)	(54,164)
Comprehensive income available to Taylor Morrison Home Corporation	$58,678	$27,401	$103,422	$37,169

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 Loss	Non-controlling Interest - Joint Venture	Non-controll Interests[(1)]	T St E
Balance – December 31, 2017	82,399,996	$1	37,179,616	$—	$1,341,873	3,049,257	$(47,622)	$319,833	$(17,968)	$1,663	$748,765	$
Cumulative-effect adjustment to Retained Earnings related to adoption of ASU No. 2014-09 (see Note 2)								1,983				1,
Net income	—	—	—	—	—	—	—	103,422	—	269	3,133	10
Exchange of New TMM Units and corresponding number of Class B Common Stock	20,487	—	(20,487)	—	1,293	—	—	—	—	—	(1,293)	—
TMHC repurchase and cancellation of New TMM Units from Principal Equityholders	—	—	(7,588,771)	—	(201,775)	—	—	—	—	—	—	(2
Exercise of stock options	98,270	—	—	—	1,588	—	—	—	—	—	—	1,
Issuance of restricted stock units, net of shares withheld for tax	161,547	—	—	—	(1,491)	—	—	—	—	—	—	(1
Exchange of B shares from secondary offerings	28,706,924	—	—	—	729,954	—	—	—	—	—	—	72
Repurchase of New TMM Units from Principal	—	—	(28,706,924)	—	—	—	—	—	—	—	(730,963)	(7

Equityholders											
Share based compensation	—	— —	—6,026	—	—	—	—	—	264	6,
Changes in non-controlling interests of consolidated joint ventures	—	— —	——	—	—	—	—	(573)	—	(5
Balance – June 30, 2018	111,387,224	$1 863,434	$ $1,877,468	3,049,257	$(47,622)	$425,238	$(17,968)	$1,359	$19,906	$

(1)As of June 30, 2018, the remaining Non-controlling Interest relates to management and director ownership. Refer to Note 10 - Stockholders' Equity for discussion regarding our equity offering transactions during the six months ended June 30, 2018.

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,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income before allocation to non-controlling interests	$106,824	$91,531
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in income of unconsolidated entities	(7,263)	(4,156)
Stock compensation expense	6,290	6,850
Distributions of earnings from unconsolidated entities	3,298	3,496
Depreciation and amortization	11,306	2,097
Debt issuance costs amortization	1,652	1,909
Contingent consideration	146	613
Deferred income taxes	246	(6,291)
Changes in operating assets and liabilities:		
Real estate inventory and land deposits	(228,278)	(200,801)
Mortgages held for sale, prepaid expenses and other assets	74,094	132,989
Customer deposits	59,364	70,867
Accounts payable, accrued expenses and other liabilities	(27,119)	(641)
Income taxes payable	9,929	1,507
Net cash provided by operating activities	10,489	99,970
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(8,593)	(915)
Distributions of capital from unconsolidated entities	9,965	3,295
Investments of capital into unconsolidated entities	(3,368)	(23,604)
Net cash (used in) investing activities	(1,996)	(21,224)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in loans payable and other borrowings	18,304	8,643
Repayments of loans payable and other borrowings	(8,350)	(8,047)
Borrowings on mortgage warehouse	311,880	388,353
Repayment on mortgage warehouse	(380,884)	(523,767)
Payment of contingent consideration	(265)	—
Proceeds from stock option exercises	1,588	4,734
Proceeds from issuance of shares from secondary offerings	767,116	882,306
TMHC repurchase and cancellation of New TMM Units from principal equityholders	(201,775)	—
Repurchase of shares from principal equityholders	(768,125)	(884,303)
Payment of taxes related to net share settlement of equity awards	(1,491)	(289)
Distributions to non-controlling interests of consolidated joint ventures, net	(573)	(100)
Net cash (used in) financing activities	(262,575)	(132,470)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	$(254,082)	$(53,724)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH — Beginning of period	575,503	301,812
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH — End of period	$321,421	$248,088
SUPPLEMENTAL CASH FLOW INFORMATION:		0
Income taxes paid, net	$(21,525)	$(46,133)
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Change in loans payable issued to sellers in connection with land purchase contracts	$24,279	$31,305

Change in inventory not owned	$(1,065)	$(2,249)
Change in Prepaid expenses and other assets, net due to adoption of ASU 2014-09	$(32,004)	$—
Change in Property and equipment, net due to adoption of ASU 2014-09	$32,004	$—

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” through its subsidiaries (with TMHC referred to herein as “we,” “our,” “the Company” and “us”), owns and operates a residential homebuilding business and is a developer of lifestyle communities. As of June 30, 2018, we operated in the states of Arizona, California, Colorado, Florida, Georgia, Illinois, North and South Carolina, and Texas. Our Company serves a wide array of consumer groups from coast to coast, including first time, move-up, luxury, and active adult. Our homebuilding company operates under our Taylor Morrison and Darling Homes brand names. Our business is organized into multiple homebuilding operating components, and a financial services component (formerly called our mortgage operating component), all of which are managed as four reportable segments: East, Central, West, and Financial Services. 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 Financial Services reportable segment provides our customers with mortgage services through our wholly owned mortgage subsidiary, operating as Taylor Morrison Home Funding, LLC (“TMHF”), and title services through our wholly owned title services subsidiary, Inspired Title Services, LLC (“Inspired Title”).

As a result of the completion of our initial public offering (“IPO”) on April 12, 2013 and a series of transactions pursuant to a Reorganization Agreement dated as of April 9, 2013, TMHC was formed and became the owner and general partner of TMM Holdings II Limited Partnership (“New TMM”), our direct subsidiary. New TMM was formed by a consortium of investors 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 (together, the “Oaktree Entities”), and affiliates of JH Investments, Inc. (“JH” and together with the TPG Entities and Oaktree Entities, the “Former Principal Equityholders” and, following JH's February 2017 sale of its equity interest in us, the “Remaining Principal Equityholders”).

From January 2017 through January 2018, we completed seven public offerings for an aggregate of 80.2 million shares of our Class A Common Stock, using all of the net proceeds therefrom to repurchase our Former Principal Equityholders' indirect interest in TMHC. In January 2018, we also purchased an additional 7.6 million shares of our Class B Common Stock from our Remaining Principal Equityholders. Following our final public offering in January, 2018, the Remaining Principal Equityholders no longer held any ownership in the Company. Refer to Note 10. Stockholders' Equity for discussion regarding our equity offering transactions.

On June 7, 2018 we announced and entered into an Agreement and Plan of Merger with AV Homes, Inc. (“AV Homes”). AV Homes is a homebuilder and land developer of residential communities in Florida, North Carolina, South Carolina, Arizona and Texas. AV Homes focuses on the development and construction of primary residential communities that serve first-time and move-up buyers, as well as age restricted active adults communities.

We will acquire all of the outstanding shares of AV Homes common stock at $21.50 per share in a cash and stock transaction with an estimated value of approximately $480 million. We have not completed the fair value measurements with respect to the AV Homes' assets to be acquired and the AV Homes' liabilities to be assumed. A final determination of the fair value of AV Homes’ assets and liabilities will be based on the actual assets and liabilities of AV Homes that exist as of the date of completion of the merger. Additionally, the final value of the consideration to be paid by us to complete the merger will be determined based on the ending number of shares of AV Homes' Common Stock outstanding at the time of the completion of the merger. Within 12 months after the completion of the merger, final valuations will be completed and reflected in the combined company’s financial information. Under the terms of the agreement, AV Homes stockholders will have the option to receive, at their election, consideration per share equal to (i) $21.50 in cash, (ii) 0.9793 shares of Taylor Morrison Class A common stock or (iii) the combination of $12.64 in cash and 0.4034 shares of Taylor Morrison Class A common stock, subject to an overall proration of approximately 58.8% cash and 41.2% stock. On a pro forma basis, AV Homes stockholders are expected to own up to approximately 10% of the combined company, subject to conversion mechanics applicable to holders of AV Homes' convertible notes. The transaction has been unanimously approved by the Boards of Directors of both Taylor Morrison and AV Homes and will be submitted to the stockholders of AV Homes for approval. The transaction is expected to close late in the third quarter or early in the fourth quarter of 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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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 2017 Annual Report on Form 10-K (the “Annual Report”). In the opinion of management, the accompanying Unaudited 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.

Non-controlling interests – During the first quarter of 2018, we completed sales of our Class A Common Stock in registered public offerings, totaling 28.7 million shares. We used all of the net proceeds from the public offerings to purchase partnership units in New TMM (“New TMM Units”) along with shares of our Class B Common Stock, held by our Remaining Principal Equityholders. In addition, in a series of transactions following each public offering, the Company purchased 3.8 million shares of Class B common stock directly from our Remaining Principal Equityholders on both January 8, 2018 and January 17, 2018, for an aggregate total of 7.6 million shares purchased. As a result, we adjusted Non-controlling interests and Additional paid-in capital on the Condensed Consolidated Balance Sheets and Condensed Consolidated Statement of Stockholders' Equity to reflect the change in ownership. Refer to Note 10- Stockholders' Equity for discussion regarding our equity offering transactions.

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 in presented as “Net income attributable to non-controlling interests - joint ventures” on the Condensed Consolidated Statements of Operations.

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.

Real Estate Inventory — Inventory consists of raw land, land under development, homes under construction, completed homes, and model homes, all of which are stated at cost. 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 related direct overhead. Home vertical construction costs are accumulated and charged to cost of sales at the time of home closing using the specific identification method. Land acquisition, development, interest, real estate taxes and overhead are allocated to homes and units 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 are generally allocated to the remaining lots on a prospective basis. For those communities that have been temporarily closed or development has been discontinued, we do not allocate interest or other costs to the community’s inventory until activity resumes. Such costs are expensed as incurred.

We capitalize qualifying interest costs to inventory during the development and construction periods. Capitalized interest is charged to cost of sales when the related inventory is delivered or when the related inventory is charged to cost of sales.

We assess the recoverability of our inventory in accordance with the provisions of ASC Topic 360, Property, Plant, and Equipment. We review our real estate inventory for indicators of impairment by community during each reporting period. If indicators of impairment are present for a community, we first perform an undiscounted cash flow analysis to determine if the carrying value of the assets in that community exceeds the expected undiscounted cash flows. Generally, if the carrying value of the assets exceeds their estimated undiscounted cash flows, then the assets are deemed to be impaired and are recorded at fair value as of the assessment date. Our determination of fair value is based on a discounted cash flow model which includes projections and estimates relating to sales prices, construction costs, sales pace, and other factors. Changes in these expectations may lead to a change in the outcome of our impairment analysis, and actual results may also differ from our assumptions. For the three and six months ended June 30, 2018 and 2017, 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 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.

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Our assessment of the carrying value of our assets typically includes subjective estimates of future performance, including the timing of when development will recommence, the type of product to be offered, and the margin to be realized. In the future, some of these inactive communities may be re-opened while others may be sold. As of June 30, 2018 and December 31, 2017, we had one and two inactive projects with a carrying value of $3.2 million and $10.7 million, respectively, in the West homebuilding segment. There were no inactive projects in our Central or East homebuilding segments as of June 30, 2018 or December 31, 2017.

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.

Investments in Unconsolidated Entities — We evaluate our investments in unconsolidated entities for indicators of impairment. 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, our intent and ability to recover our investment in the unconsolidated entity, financial condition and long-term prospects of the unconsolidated 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, 2018 or 2017.

Revenue Recognition

Topic 606

In January 2018, we adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), which provides new guidance for revenue recognition and elected to use the modified retrospective approach to account for prior periods. The standard's core principle requires an entity to 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. The new guidance does not materially impact our home closings revenue, net, land closings revenue or financial services revenue based on our current operations, customer contracts, and policies. However, the following changes were made to conform to the new guidance:

- Forfeited customer deposits were previously classified as a credit to Other expense/(income), net on the Condensed Consolidated Statement of Operations. Under Topic 606, these are now considered revenue and recorded in Home closings revenue, net as of January 1, 2018. Prior period balances for forfeited customer deposits were not reclassified and are not material to the Condensed Consolidated Financial Statements.

- Certain costs related to sales offices and model homes were previously capitalized and presented within Prepaid expenses and other assets, net on the Condensed Consolidated Balance Sheet and amortized through Sales, commissions and other marketing costs on the Condensed Consolidated Statement of Operations. Beginning January 1, 2018, these costs have been reclassified to Property and equipment, net on the Condensed Consolidated Balance Sheet and depreciated through Sales, commissions and other marketing costs on the Condensed Consolidated Statement of Operations. A total of $32.0 million of sales office and model homes costs were reclassified from Prepaid expenses and other assets, net to Property and equipment, net as of January 1, 2018. As we elected the modified retrospective approach to account for prior periods, the balance of any capitalized sales office and model home costs required to be expensed under Topic 606 was recorded as an adjustment to beginning retained earnings in the first quarter of 2018 and reflected as an approximate $2.0 million cumulative effect adjustment to retained earnings in the Condensed Consolidated Statement of Stockholders' Equity.

Home and land closings revenue

Under Topic 606, the following steps are applied to determine the proper home closings revenue and land closings revenue recognition: (1) we identify the contract(s) with our customer; (2) we identify the performance obligations in the contract; (3) we determine the transaction price; (4) we allocate the transaction price to the performance obligations in the contract; and (5) we recognize revenue when (or as) we satisfy the performance obligation. For our home sales transactions, we have one contract, with one performance obligation, with each customer to build and deliver the home purchased (or develop and deliver l

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and). Based on the application of the five steps, the following summarizes the timing and manner of home and land sales revenue:

- Revenue from closings of residential real estate is recognized when closings have occurred, the buyer has made the required minimum down payment, obtained necessary financing, the risks and rewards of ownership are transferred to the buyer, and we have no continuing involvement with the property, which is generally upon the close of escrow. Revenue is reported net of any discounts and incentives.
- Revenue from land sales is recognized when a significant down payment is received, title passes and collectability of the receivable is reasonably assured, and we have no continuing involvement with the property, which is generally upon the close of escrow.

Financial services revenue

Mortgage operations and hedging activity related to financial services are not within the scope of Topic 606 and therefore there was no change to our accounting policies related to such activities. Loan origination fees (including title fees, points, and 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. Also included in financial services revenue/expenses is the realized and unrealized gains and losses from hedging instruments.

Recently Issued Accounting Pronouncements — In February 2016, the Financial Accounting Standards Board ("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. The guidance requires a modified retrospective approach for all existing leases at the date of initial adoption. In July 2018, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842, Leases. ASU 2018-10 primarily provides additional guidance to Topic 842 including clarification on residual value guarantees, implicit rates, lessee reassessment of lease classifications, and other various areas within the Topic. We do not believe the adoption of ASU 2016-02 or ASU 2018-10 will have a material impact on our Condensed Consolidated Financial Statements and disclosures.

3. 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 dilutive 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 June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net income available to TMHC – basic	$58,678	$27,401	$103,422	$37,169
Net income attributable to non-controlling interest	474	28,322	3,133	54,164
Loss fully attributable to public holding company	84	125	248	152
Net income – diluted	$59,236	$55,848	$106,803	$91,485
Denominator:				
Weighted average shares – basic (Class A)	111,347	58,977	110,508	48,822
Weighted average shares – non-controlling interest (Class B)	867	60,630	3,339	70,766
Restricted stock units	898	1,075	1,068	976
Stock Options	370	379	485	331
Weighted average shares – diluted	113,482	121,061	115,400	120,895
Earnings per common share – basic:				
Net income available to Taylor Morrison Home Corporation	$0.53	$0.46	$0.94	$0.76
Earnings per common share – diluted:				
Net income available to Taylor Morrison Home Corporation	$0.52	$0.46	$0.93	$0.76

We excluded a total weighted average of 1,579,683 and 1,660,683 outstanding anti-dilutive stock options and unvested restricted stock units (“RSUs”) and 787,527 and 1,926,724 stock options and unvested RSUs from the calculation of earnings per share for the three and six months ended June 30, 2018 and 2017, respectively.

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

4. REAL ESTATE INVENTORY AND LAND DEPOSITS

Inventory consists of the following (in thousands):

	As of June 30, 2018	December 31, 2017
Real estate developed and under development	$2,190,939	$2,130,263
Real estate held for development or held for sale [1]	56,814	76,552
Operating communities [2]	850,795	659,398
Capitalized interest	95,693	90,496
Total owned inventory	3,194,241	2,956,709
Real estate not owned under option agreements	1,462	2,527
Total real estate inventory	$3,195,703	$2,959,236

(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, properties where we have ceased development and/or marketing, and long-term strategic assets.

(2) Operating communities consist of all vertical construction costs relating to homes in progress and completed homes for all active production of inventory.

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

	As of June 30, 2018		December 31, 2017	
	Owned Lots	Book Value of Land and Development	Owned Lots	Book Value of Land and Development
Raw	7,864	$ 336,396	7,703	$ 338,642
Partially developed	5,567	371,810	5,811	543,200
Finished	13,108	1,536,378	11,644	1,314,243
Long-term strategic assets	50	3,169	763	10,730
Total	26,589	$ 2,247,753	25,921	$ 2,206,815

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

As of June 30, 2018 and December 31, 2017, we had the right to purchase 3,949 and 5,037 lots under land option purchase contracts, respectively, for an aggregate purchase price of $350.0 million and $405.3 million, respectively. We do not have title to the properties, and the creditors generally have no recourse against the Company. As of June 30, 2018 and December 31, 2017, our exposure to loss related to our option contracts with third parties and unconsolidated entities consisted of non-refundable deposits totaling $40.5 million and $49.8 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,	
	2018	2017	2018	2017
Interest capitalized - beginning of period	$95,334	$103,059	$90,496	$102,642
Interest incurred	20,129	20,711	39,815	41,425
Interest amortized to cost of home closings	(19,770)	(23,280)	(34,618)	(43,577)
Interest capitalized - end of period	$95,693	$100,490	$95,693	$100,490

5. INVESTMENTS IN UNCONSOLIDATED ENTITIES

We have investments 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/or mortgage lending activities. Some of these joint ventures develop land for the sole use of the joint venture participants, including us, and others develop land for sale to the joint venture participants and to unrelated builders. Our share of the joint venture profit relating to lots we purchase from the joint ventures is deferred until homes are delivered by us and title passes to a homebuyer.

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

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	As of June 30, 2018	December 31, 2017
Assets:		
Real estate inventory	$591,198	$627,841
Other assets	145,205	138,341
Total assets	$736,403	$766,182
Liabilities and owners' equity:		
Debt	$181,762	$193,770
Other liabilities	26,527	27,556
Total liabilities	208,289	221,326
Owners' equity:		
TMHC	189,733	192,364
Others	338,381	352,492
Total owners' equity	528,114	544,856
Total liabilities and owners' equity	$736,403	$766,182

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues	$76,629	$64,260	$135,703	$87,253
Costs and expenses	(61,485)	(50,937)	(108,817)	(71,041)
Income of unconsolidated entities	$15,144	$13,323	$26,886	$16,212
TMHC's share in income of unconsolidated entities	$4,017	$3,071	$7,263	$4,156
Distributions from unconsolidated entities	$12,230	$5,052	$13,263	$6,791

6. ACCRUED EXPENSES AND OTHER LIABILITIES

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

	As of June 30, 2018	As of December 31, 2017
Real estate development costs to complete	$9,966	$ 14,815
Compensation and employee benefits	50,773	72,352
Self-insurance and warranty reserves	53,011	51,010
Interest payable	17,011	17,125
Property and sales taxes payable	10,885	12,294
Other accruals	25,669	33,944
Total accrued expenses and other liabilities	$167,315	$ 201,540

Self-Insurance and Warranty Reserves – We accrue for the expected costs associated with our limited 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,

	2018	2017	2018	2017
Reserve - beginning of period	$50,336	$52,416	$51,010	$50,550
Additions to reserves	10,282	6,744	15,325	11,043
Costs and claims incurred	(7,873)	(6,593)	(12,933)	(9,928)
Change in estimates to existing reserves	266	1,517	(391)	2,419
Reserve - end of period	$53,011	$54,084	$53,011	$54,084

7. DEBT

Total debt consists of the following (in thousands):

	As of June 30, 2018			December 31, 2017		
	Principal	Unamortized Debt Issuance Costs	Carrying Value	Principal	Unamortized Debt Issuance Costs	Carrying Value
5.25% Senior Notes due 2021, unsecured	$550,000	$ 3,294	$546,706	$550,000	$ 3,892	$546,108
5.875% Senior Notes due 2023, unsecured	350,000	2,718	347,282	350,000	3,002	346,998
5.625% Senior Notes due 2024, unsecured	350,000	3,050	346,950	350,000	3,319	346,681
Senior Notes subtotal	1,250,000	9,062	1,240,938	1,250,000	10,213	1,239,787
Loans payable and other borrowings	136,508	—	136,508	139,453	—	139,453
Revolving Credit Facility(1)	—	—	—	—	—	—
Mortgage warehouse borrowings	49,818	—	49,818	118,822	—	118,822
Total Senior Notes and other financing	$1,436,326	$ 9,062	$1,427,264	$1,508,275	$ 10,213	$1,498,062

(1) The Revolving Credit Facility included $3.1 million and $2.0 million of unamortized debt issuance costs as of June 30, 2018 and December 31, 2017, respectively, which is presented in Prepaid expenses and other assets, net on the Consolidated Balance Sheets. As of June 30, 2018 and December 31, 2017, we had $48.4 million and $47.1 million, respectively, of utilized letters of credit, resulting in $551.6 million and $452.9 million, respectively, of availability on the Revolving Credit Facility.

2021 Senior Notes

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

The 2021 Senior Notes mature on April 15, 2021. The 2021 Senior Notes are guaranteed by TMM Holdings Limited Partnership ("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) 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.

The 2021 Senior Notes are redeemable at scheduled redemption prices, currently at 102.625%, of their principal amount (plus accrued and unpaid interest).

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

2023 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 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 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.

Revolving Credit Facility

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On January 26, 2018, we amended our $500.0 million Revolving Credit Facility to extend the maturity date from April 12, 2019 to January 26, 2022. On June 29, 2018, we further amended the Revolving Credit Facility to increase the amount available to $600.0 million. Other immaterial changes were also made to the structure of the Revolving Credit Facility. 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 $1.7 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, 2018, 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, 2018					
Facility	Amount Drawn	Facility Amount		Interest Rate	Expiration Date	Collateral [1]
Flagstar	$1,692	$ 5,000	[2]	LIBOR + 2.25%	30 days written notice	Mortgage Loans
Comerica	18,334	50,000		LIBOR + 2.25%	On Demand	Mortgage Loans
J.P. Morgan	29,792	100,000		LIBOR + 2.375%	September 24, 2018	Mortgage Loans and Restricted Cash
Total	$49,818	$ 155,000				

	As of December 31, 2017				
Facility	Amount Drawn	Facility Amount	Interest Rate	Expiration Date	Collateral [1]
Flagstar	$12,990	$ 39,000	LIBOR + 2.25%	30 days written notice	Mortgage Loans
Comerica	41,447	85,000	LIBOR + 2.25%	On Demand	Mortgage Loans

J.P. Morgan	64,385	125,000	LIBOR + 2.375%	September 24, 2018	Mortgage Loans and Restricted Cash
Total	$118,822	$ 249,000			

(1) The mortgage warehouse borrowings outstanding as of June 30, 2018 and December 31, 2017 were collateralized by a) $99.6 million and $187.0 million, respectively, of mortgage loans held for sale, which comprised the balance of mortgage loans held for sale and b) approximately $1.3 million and $1.6 million, respectively, of cash which are included in restricted cash in the accompanying Condensed Consolidated Balance Sheets.

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(2) We amended our warehouse agreement with Flagstar during the three months ended June 30, 2018 and reduced our capacity from $39.0 million to $5.0 million. From time to time we have the ability to increase or decrease capacity to accommodate funding needs.

Loans Payable and Other Borrowings

Loans payable and other borrowings as of June 30, 2018 and December 31, 2017 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 each of June 30, 2018 and December 31, 2017. We impute interest for loans with no stated interest rates.

8. 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 derivative assets includes interest rate lock commitments ("IRLCs") and mortgage backed securities ("MBS"). The fair value of IRLCs is based on the value of the underlying mortgage loan, quoted MBS prices and the probability that the mortgage loan will fund within the terms of the IRLCs. We estimate the fair value of the forward sales commitments based on quoted MBS prices. The fair value of our mortgage warehouse borrowings, loans payable and other borrowings and the borrowings under our Revolving Credit Facility 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 contingent consideration liability related to previous acquisitions was estimated using a Monte Carlo simulation model under the option pricing method. As the measurement of the contingent consideration is based primarily on significant inputs not observable in the market, it represents a Level 3 measurement. There were no changes to or transfers between the levels of the fair value hierarchy for any of our financial instruments as of June 30, 2018, when compared to December 31, 2017.

The carrying value and fair value of our financial instruments are as follows:

		June 30, 2018		December 31, 2017	
(Dollars in thousands)	Level in Fair Value Hierarchy	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Description:					
Mortgage loans held for sale	2	$99,606	$ 99,606	$ 187,038	$ 187,038
Derivative assets, net	2	2,451	2,451	1,352	1,352
Mortgage warehouse borrowings	2	49,818	49,818	118,822	118,822
Loans payable and other borrowings	2	136,508	136,508	139,453	139,453

5.25% Senior Notes due 2021 [1]	2	546,706	550,000	546,108	561,000
5.875% Senior Notes due 2023 [1]	2	347,282	348,250	346,998	369,705
5.625% Senior Notes due 2024 [1]	2	346,950	342,335	346,681	366,205
Revolving Credit Facility	2	—	—	—	—
Contingent consideration liability[2]	3	—	—	5,328	5,328

[1] Carrying value for Senior Notes, as presented, includes unamortized debt issuance costs. Debt issuance costs are not factored into the fair value calculation for the Senior Notes.

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(2) All payments related to our contingent consideration liability were paid during the first quarter of 2018 and no liability exists as of June 30, 2018.

9. INCOME TAXES

Our effective tax rate for the three and six months ended June 30, 2018 was 25.2% and 22.9%, respectively, compared to 28.7% and 31.1% for the same periods in 2017, respectively. For the three and six months ended June 30, 2018 and 2017, the effective tax rate differed from the U.S. federal statutory income tax rate primarily due to state income taxes, special deductions and credits relating to home building activities, uncertain tax positions, and discrete tax adjustments related to certain deferred tax assets and liabilities. The effective tax rate for the six months ended June 30, 2018 was favorably impacted by the reduction in the federal corporate tax rate from 35% to 21% as a result of the Tax Cuts and Jobs Act ("Tax Act"), the relevant provisions of which became effective on January 1, 2018.

In accordance with Staff Accounting Bulletin No. 118 ("SAB 118"), the Company recorded provisional tax expense in the fourth quarter of 2017 related to the write-down of our existing deferred tax assets and the mandatory deemed repatriation of foreign earnings related to the sale of our Canadian business in 2015. In the quarter ended June 30, 2018, we recorded a $1.0 million reduction to the provisional tax expense for the mandatory repatriation of foreign earnings. The adjustment to the provisional tax expense during the quarter was a result of the filing of foreign income tax returns and the issuance of additional guidance from the IRS interpreting various provisions of the Tax Act. Our accounting of the Tax Act is still a provisional estimate and further adjustments may be necessary in 2018 due to changes in our interpretation of the Tax Act and the issuance of additional guidance by various regulatory bodies. We expect our final accounting for the Tax Act under SAB 118 to be completed when we finalize our 2017 income tax returns.

At both June 30, 2018 and December 31, 2017, cumulative gross unrecognized tax benefits were $12.9 million. If the unrecognized tax benefits as of June 30, 2018 were to be recognized, approximately $10.3 million would affect the effective tax rate. We had $1.3 million and $1.0 million of gross interest and penalties related to unrecognized tax positions accrued as of June 30, 2018 and December 31, 2017, respectively.

10. 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.

During the first quarter of 2018, we completed sales of our Class A Common Stock in registered public offerings. We used all of the net proceeds from these public offerings to purchase partnership units in New TMM, our direct subsidiary, along with shares of our Class B Common Stock, held by our Remaining Principal Equityholders. As a result, we adjusted Non-controlling interests and Additional paid-in capital on the Condensed Consolidated Balance Sheets to reflect the change in ownership. The aggregate number of partnership units and corresponding shares of Class B Common Stock we purchased was equal to the number of shares of Class A Common Stock sold in the public offerings.

The following is a summary of the completed sales of our Class A Common Stock in registered public offerings for the first quarter of 2018:

(Shares presented in thousands)

Closing date	Number of shares	Net sale price per share
January 8, 2018	11,000	$26.05
January 17, 2018 (1)	19,207	27.14

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[1] The January 17, 2018 offering consisted of 17.7 million shares of Class A common stock offered by the Company and 1.5 million shares offered directly by our Principal Equityholder, TPG.

In addition, in a series of transactions following each public offering, the Company purchased 3.8 million shares of Class B common stock directly from our Remaining Principal Equityholders on both January 8, 2018 and January 17, 2018 at the same respective net purchase price per share, for an aggregate total of 7.6 million shares purchased.

Following our final public offering on January 17, 2018, our Principal Equityholders no longer have any remaining investment in us. The components and respective voting power of outstanding TMHC Common Stock, including the effects of the secondary offerings, at June 30, 2018 are as follows:

	Shares Outstanding	Percentage	
Class A Common Stock	111,387,224	99.2	%
Class B Common Stock[1]	863,434	0.8	%
Total	112,250,658	100	%

[1] The remaining 0.8% of Class B Common Stock is held by certain current and former members of management and directors.

Stock Repurchase Program

On January 3, 2018, our Board of Directors authorized an extension of the Company's stock repurchase program through December 31, 2018 and increased the amount available for repurchases under the program to a maximum total amount of $200.0 million of the Company’s Common Stock 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, statutory requirements, planned land investment and development spending, acquisition and other investment opportunities and ongoing capital requirements. On January 8, 2018 we purchased $100.0 million of Common Stock. On January 17, 2018 we purchased an additional $101.8 million. Because these repurchases were in connection with the offerings by our Remaining Principal Equityholders, the stock repurchase program was not reduced by such purchase and such authorization remained in effect thereafter. As of June 30, 2018 there was $95.9 million available to be used for repurchases. During the three months ended June 30, 2018, there were no shares repurchased. During the three and six months ended June 30, 2017, there were no shares repurchased.

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11. STOCK BASED COMPENSATION

Equity-Based Compensation

In April 2013, we adopted the Taylor Morrison Home Corporation 2013 Omnibus Equity Award Plan (the "Plan"). The Plan was most recently amended and restated in May 2017. The Plan provides for the grant of stock options, RSUs and other equity-based awards deliverable in shares of our Class A Common Stock. As of June 30, 2018, we had an aggregate of 8,338,851 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, all of which 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,	
	2018	2017	2018	2017
Restricted stock units [1]	$1,803	$2,294	$4,105	$4,191
Stock options	944	1,188	2,185	2,146
New TMM units [2]	—	356	—	513
Total stock compensation	$2,747	$3,838	$6,290	$6,850

[1] Includes compensation expense related to time-based RSUs and performance-based RSUs. Outstanding performance-based RSUs reflected in the table above are reported at target level of performance.
[2] As of December 31, 2017, all new TMM units were vested, and there is no further expense associated with them.

At June 30, 2018 and December 31, 2017, the aggregate unrecognized value of all outstanding stock-based compensation awards was approximately $27.7 million and $19.8 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, 2018:

	Shares	Weighted Average Grant Date Fair Value
Balance at December 31, 2017	1,889,559	$ 14.84
Granted	566,943	24.12
Vested	(223,739)	15.29
Forfeited [1]	(367,860)	16.59
Balance at June 30, 2018	1,864,903	$ 17.09

[1] Forfeitures on time-based RSUs are a result of terminations of employment, while forfeitures on performance-based RSUs are a result of failing to attain certain goals as outlined in our stock based compensation awards or termination of employment.

During the three and six months ended June 30, 2018, we granted 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 awards that settle in shares of Class A Common Stock and have been awarded to our employees and members of our Board of Directors. Vesting of these 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 vest ratably over a three to four year period, based on the grant date. Time-based RSUs granted to members of the Board of Directors generally vest on the first anniversary of the grant date.

Additionally, we granted 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 date the Compensation Committee certifies the applicable level of performance achieved 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, 2018:

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	Shares	Weighted Average Exercise Price Per Share
Outstanding at December 31, 2017	2,854,213	$ 17.50
Granted	721,762	23.86
Exercised	(98,270)	16.16
Canceled/Forfeited	(194,849)	18.52
Outstanding at June 30, 2018	3,282,856	$ 18.86
Options exercisable at June 30, 2018	1,541,557	$ 18.74

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 options expire 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.

Pursuant to the reorganization transactions in connection with our IPO, 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. As of December 31, 2017, all New TMM Units were vested. The shares of Class B Common Stock/New TMM Units held by members of management and members of our Board of Directors as of June 30, 2018 were as follows:

	Class B Shares/New TMM Units	Weighted Average Grant Date Fair Value
Balance at December 31, 2017	883,921	$ 5.24
Exchanges [1]	(20,487)	6.93
Balance at June 30, 2018	863,434	$ 5.20

[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.

12. RELATED-PARTY TRANSACTIONS

From time to time, we may engage in transactions with entities or persons that are affiliated with us. Such transactions with related parties are typically conducted in the normal course of operations and are generally executed at arm's length, as they are entered into at terms comparable to those entered into with unrelated third parties. There was no activity for the three months ended June 30, 2018.

During the six months ended June 30, 2018 we engaged in multiple equity offering transactions with our Remaining Principal Equityholders. Refer to Note 10 - Stockholders' Equity for discussion regarding such transactions.

During the three months ended June 30, 2017, we entered into a contract to purchase 140 home lots in Tustin, California for a total purchase price of $30.0 million from Intracorp Companies, which is owned and controlled by a member of the Board of Directors.

During the three and six months ended June 30, 2017, we completed multiple sales of our Class A Common Stock in registered public offerings. We used all of the net proceeds from these public offerings to purchase partnership units in New TMM, our direct subsidiary, along with shares of our Class B Common Stock, held by our Former Principal Equityholders. As a result, we adjusted Non-controlling interests and Additional paid-in capital on the Condensed Consolidated Balance Sheets to reflect the change in ownership. The aggregate number of partnership units and corresponding shares of Class B Common Stock we purchased was equal to the number of shares of Class A Common Stock sold in the public offerings. The following is a summary of the completed sales of our Class A Common Stock in registered public offerings for the six months ended June 30, 2017:

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(Shares presented in thousands)

Closing date	Number of shares	Net purchase price per share
February 6, 2017	11,500	$18.2875
March 27, 2017	10,000	20.7800
May 5, 2017	10,000	23.1200
June 27, 2017	10,000	23.3000

13. 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 activity in the three months ended June 30, 2018, therefore it is not presented.

	Six Months Ended June 30, 2018			
	Total Post-Retirement Benefits Adjustments	Foreign Currency Translation Adjustments	Non-controlling Interest - Principal Equityholders Reclassification	Total
Balance, beginning of period	$2,082	$ (45,205)	$ 25,155	$(17,968)
Gross amounts reclassified within AOCI	—	25,155	(25,155)	—
Balance, end of period	$2,082	$ (20,050)	$ —	$(17,968)

	Three Months Ended June 30, 2017			
	Total Post-Retirement Benefits Adjustments	Foreign Currency Translation Adjustments	Non-controlling Interest - Principal Equityholders Reclassification	Total
Balance, beginning of period	$2,061	$ (63,448)	$ 43,398	$(17,989)
Gross amounts reclassified within AOCI	—	11,489	(11,489)	—
Balance, end of period	$2,061	$ (51,959)	$ 31,909	$(17,989)

	Six Months Ended June 30, 2017			
	Total Post-Retirement Benefits Adjustments	Foreign Currency Translation Adjustments	Non-controlling Interest - Principal Equityholders Reclassification	Total
Balance, beginning of period	$2,061	$ (79,927)	$ 59,877	$(17,989)
Gross amounts reclassified within AOCI	—	27,968	(27,968)	—
Balance, end of period	$2,061	$ (51,959)	$ 31,909	$(17,989)

14. REPORTING SEGMENTS

We have multiple homebuilding operating components 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 components into three reporting segments, East, Central, and West, based on similar long-term economic characteristics. We also have a financial services reporting segment. We have no inter-segment sales as all sales are to external customers.

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Our reporting segments are as follows:

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

Segment information is as follows (in thousands):

	Three Months Ended June 30, 2018					
	East	Central	West	Financial Services	Corporate and Unallocated	Total
Total revenues	$360,472	$298,112	$305,978	$16,266	$—	$980,828
Gross margin	65,128	53,653	54,816	5,114	—	178,711
Selling, general and administrative expenses	(31,105)	(26,122)	(20,061)	—	(22,777)	(100,065)
Equity in income of unconsolidated entities	128	374	1,476	2,039	—	4,017
Interest and other (expense), net	(122)	(130)	(101)	—	(3,025)	(3,378)
Income/(loss) before income taxes	$34,029	$27,775	$36,130	$7,153	$(25,802)	$79,285

	Three Months Ended June 30, 2017					
	East	Central	West	Financial Services	Corporate and Unallocated	Total
Total revenues	$320,053	$267,562	$305,245	$15,634	$—	$908,494
Gross margin	68,988	48,413	48,487	5,532	—	171,420
Selling, general and administrative expenses	(29,337)	(25,933)	(18,854)	—	(21,286)	(95,410)
Equity in income of unconsolidated entities	—	226	685	2,160		3,071
Interest and other (expense)/income, net	(129)	602	(67)	—	(1,081)	(675)
Income/(loss) before income taxes	$39,522	$23,308	$30,251	$7,692	$(22,367)	$78,406