

Taylor Morrison Home Corp  
Form 10-K  
February 27, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 10-K**

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

**For the fiscal year ended December 31, 2014**

**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 No. 001-35873**

**TAYLOR MORRISON HOME CORPORATION**  
**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**

**90-0907433**  
**(I.R.S. Employer**

**incorporation or organization)**

**Identification No.)**

**4900 N. Scottsdale Road, Suite 2000, Scottsdale, Arizona 85251**

**(Address of principal executive offices) (Zip Code)**

**Registrant's telephone number, including area code: (480) 840-8100**

**Securities Registered Pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>Class A Common Stock, \$0.00001 par value</b>	<b>New York Stock Exchange</b>
<b>Securities Registered Pursuant to Section 12(g) of the Act: None</b>	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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.

Large accelerated filer ☒

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 ☒

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The aggregate market value of voting stock held by non-affiliates of the registrant on June 30, 2014 was \$737,350,395, based on the closing sales price per share as reported by the New York Stock Exchange on such date.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of February 27, 2015:

<b>Class</b>	<b>Outstanding</b>
Class A Common Stock, \$0.00001 par value	33,071,755
Class B Common Stock, \$0.00001 par value	89,200,063

### **Documents Incorporated by Reference**

Portions of Part III of this Form 10-K are incorporated by reference from the Registrant's definitive proxy statement for its 2015 annual meeting of shareholders to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant's fiscal year.

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**FORM 10-K**

**FOR THE YEAR ENDED DECEMBER 31, 2014**

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Separate combined financial statements of our unconsolidated joint venture activities have been omitted because, if considered in the aggregate, they would not constitute a significant subsidiary as defined by Rule 3-09 of Regulation S-X.	

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### **Available Information**

Information about our company and communities is provided on our Internet websites at [www.taylormorrison.com](http://www.taylormorrison.com) and [www.darlinghomes.com](http://www.darlinghomes.com) (collectively, the Taylor Morrison website). The information contained on the Taylor Morrison websites is not considered part of this Annual Report on Form 10-K (Annual Report). Our periodic and current reports, including any amendments, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) are available, free of charge, on our Taylor Morrison website as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (SEC). These filings are also available on the SEC's website at [www.sec.gov](http://www.sec.gov). In addition to our SEC filings, our corporate governance documents, including our Code of Conduct and Ethics and Corporate Governance Guidelines are available on the Investor Relations page of our Taylor Morrison website under Corporate Governance. Our stockholders may also obtain these documents in paper format free of charge upon request made to our Investor Relations department.

In this Annual Report, unless the context requires otherwise, references to the Company, we, us, or our are to Taylor Morrison Home Corporation (TMHC) and its subsidiaries.

The July 2007 merger between Taylor Woodrow plc and George Wimpey plc, two UK-based, publicly listed homebuilders, resulted in the formation of Taylor Wimpey plc (the Predecessor Parent Company), and the subsequent integration of Taylor Woodrow Holdings (USA), Inc. and Morrison Homes, Inc. in the U.S. resulting in Taylor Morrison Communities, Inc. (Taylor Morrison Communities, Taylor Morrison or TMC), and Monarch Corporation (Monarch) in Canada. Monarch was sold to a third party on January 28, 2015.

TMHC was incorporated in Delaware in November 2012. Our principal executive offices are located at 4900 N. Scottsdale Road, Suite 2000, Scottsdale, Arizona 85251 and the telephone number is (480) 840-8100.

### **Forward-Looking Statements**

Certain information included in this Annual Report or in other materials we have filed or will file with the SEC (as well as information included in oral statements or other written statements made or to be made by us) contains or may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Exchange Act. You can identify these statements by the fact that they do not relate to matters of strictly historical or factual nature and generally discuss or relate to estimates or other expectations regarding future events. They contain words such as, but not limited to, anticipate, estimate, expect, project, intend, plan, believe, may, can, could, might, should and other words or phrases of similar meaning in connection with discussion of our strategy or future operating or financial performance. As you read this Annual Report and other reports or public statements, you should understand that these statements are not guarantees of performance or results. They involve known and unknown risks, uncertainties and assumptions, including those described under the heading Risk Factors in Part I, Item 1A. and elsewhere in this Annual Report. Although we believe that these forward-looking statements are based upon reasonable assumptions, you should be aware that many factors, including those described under the heading Risk Factors in Part I, Item 1A. and elsewhere in this Annual Report, could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements.

Forward-looking statements speak only as of the date they are made. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995, and all of our forward-looking statements are expressly qualified in their entirety by the cautionary statements contained or referenced in this section.



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**PART I**

**ITEM 1. BUSINESS**

**General Overview**

During 2014 we were one of the largest public homebuilders in North America, with communities located in the United States and Canada. In December 2014, we announced the strategic decision to sell our Canadian business and fully focus on our U.S. operations. We are now, and will continue to be, a leading public homebuilder in the United States. We are a real estate developer, with a portfolio of lifestyle and master-planned communities. We provide a diverse assortment of homes across a wide range of price points in order to appeal to a broad spectrum of customers. Our primary focus is on move-up buyers in traditionally high growth markets, where we design, build and sell single-family detached and attached homes. Our legacy of over 100 years of homebuilding experience drives our commitment to quality in every community we develop and every home we build. We operate under the Taylor Morrison and Darling Homes brand names in the United States. We also provide financial services to customers through our wholly owned mortgage subsidiary, Taylor Morrison Home Funding, LLC ( TMHF ).

Our long-term strategy is built on four pillars:

opportunistic land acquisition in core locations;

distinctive communities driven by consumer preferences;

culture of strong cost efficiency; and

optimizing profitability while achieving desired sales pace.

We are committed to creating and designing superior communities and building quality homes. Delivering on this commitment involves thoughtful design to accommodate the living environment needs of our customers and the surrounding community. We have developed elem3nts by Taylor Morrison, our eco-sensitive building program, which seeks to build energy-efficient homes by drawing on technology and building methods to lessen the carbon footprint of our homes. In recognition of our achievements in this area, we were awarded the 2014 Green Builder of the Year award by Green Builder Magazine.

Including our Canadian business, for the five years ended December 31, 2014 we delivered 24,413 homes and generated \$9.3 billion of home closings revenue. We have delivered five consecutive years of operating profit and were one of the first builders to return to profitability in 2010. We believe that our balance sheet has both the liquidity and asset strength required to execute our growth strategy. We have raised over \$900 million in corporate and joint venture financing since the beginning of 2013, and had a net debt to total book capitalization of 40.6% at December 31, 2014. As of and for the year ended December 31, 2014, we had cash and liquidity of approximately \$800 million and total company revenue growth of over 33.6% year over year. Our home closings revenue for the U.S. and Canada for the year ended December 31, 2014 was \$3.0 billion on 6,796 homes closed, excluding unconsolidated joint ventures.



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During the year ended December 31, 2014 our U.S. operations were located in five states and generated home closings revenue of \$2.6 billion and adjusted home closings gross margin of 23.0%. In the United States, we grew our average community count by 30.4% to 206, and ended 2014 with \$1.1 billion in sales order backlog. We believe we benefit from a well-located land portfolio, primarily in homebuilding markets that have been leading the U.S. housing recovery. At December 31, 2014, we had approximately 425 current and future communities containing approximately 38,854 lots that we owned or controlled. Of these, we were offering homes in 224 communities at base prices generally ranging from \$170,000 to \$1,700,000. During the year ended December 31, 2014, we closed 5,642 homes in the United States, an increase of 19.6% over the prior year. The average sales price of homes closed during the year ended December 31, 2014 increased 17.8% to approximately \$464,000.

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We are well positioned in our markets with a top-10 market share (based on 2014 home closings as reported by Metrostudy) in 13 of our 16 metropolitan markets. At December 31, 2014, we were operating in the following metropolitan areas:

<b>East</b>	<b>West</b>
Austin, Texas	Phoenix, Arizona
Dallas, Texas	Sacramento, California
Houston, Texas	San Francisco Bay Area, California
Fort Myers, Florida	San Jose, California
Jacksonville, Florida	Orange County, California
Naples, Florida	San Diego, California
Orlando, Florida	Denver, Colorado
Sarasota, Florida	
Tampa Bay, Florida	

We service these markets through ten operating divisions aggregated in two geographic reporting segments. See *Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Business Overview* in this Annual Report.

### *IPO and Summary of Reorganization Transactions*

On April 12, 2013 we completed our initial public offering ( IPO ) of 32,857,800 shares of our Class A Common Stock, par value \$0.00001 per share (the Class A Common Stock ) on the New York Stock Exchange ( NYSE ). With an initial price to the public of \$22.00 per share, it was the largest homebuilding IPO in the history of the NYSE. As a result of the completion of the IPO and a series of transactions pursuant to a Reorganization Agreement dated as of April 9, 2013, TMHC became the indirect parent of TMM Holdings Limited Partnership ( TMM Holdings ) through the formation of TMM Holdings II Limited Partnership, a Cayman Islands limited partnership ( New TMM ). TMM Holdings is a British Columbia limited partnership that acquired our operations in July 2011 and is currently the holding company for all of our operations. It was formed in 2011 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 ).

In addition to our Class A Common Stock, we have shares of Class B Common Stock, par value \$0.00001 per share (the Class B Common Stock ) outstanding. Holders of the 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.

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For each share of TMHC Class A Common Stock outstanding, TMHC holds one limited partnership interest in New TMM (each, a New TMM Unit ). The Principal Equityholders (through holding vehicles) hold New TMM Units and

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one corresponding share of Class B Common Stock for each New TMM Unit they hold. As a result, the Class A Common Stock and Class B Common Stock percentages at December 31, 2014 are as follows:

	<b>Shares Outstanding</b>	<b>Percentage</b>
Class A Common Stock	33,060,540	27.0%
Class B Common Stock	89,227,416	73.0
<b>Total</b>	<b>122,287,956</b>	<b>100.0%</b>

The Class A Common Stock is held by the public. The Class B Common Stock is beneficially owned by the TPG Entities and the Oaktree Entities, so together, they have voting power over more than a majority of our outstanding voting stock. See *Risk Factors – The Principal Equityholders have substantial influence over our business, and their interests may differ from our interests or those of our other stockholders.*

For more information on the reorganization transactions and the 2011 acquisition by the Principal Equityholders, please refer to *2011 Acquisition by our Principal Equityholders* and *Reorganization and Initial Public Offering*.

**Recent Developments**

On January 28, 2015 we closed the sale of Monarch Corporation, which held our Canadian operations, to an affiliate of Mattamy Homes Limited ( Mattamy ). Mattamy delivered a cash purchase price of CAD \$335 million at closing, which is subject to certain customary post-closing adjustments and ordinary and customary indemnifications. Immediately prior to the closing, approximately CAD \$235 million of cash at Monarch was distributed to a subsidiary of TMM Holdings, resulting in total proceeds to us of CAD \$570 million. The net proceeds of the transaction will be used for general corporate purposes, resulting in increased flexibility for us to invest further in U.S. markets.

**Business Strategy**

We deliver on our strategy by opportunistically acquiring prime land assets in core locations, focusing on the preferences of our buyers, constantly evaluating and analyzing overhead efficiency and optimizing profit by managing volume. We constantly assess our capital allocation strategy to drive long-term shareholder return. We also take advantage of opportunities to partner in joint ventures as they arise in order to secure land, share risk and maximize returns.

During the most recent economic downturn, we adhered to our core business strategy of focusing on move-up buyers. We believe our experience in the move-up market allows us to significantly expand our new home offerings at higher price points. We believe that move-up homebuyers are more insulated from market volatility, and more likely to value the quality of lifestyle and construction that we offer.

We believe our extensive land position and pipeline, located in highly desirable submarkets, have positioned us for strategic growth and increased profitability in an improving housing market. We expect to execute this strategy by:

Driving revenue by strategically opening new communities from existing land supply;

Combining land acquisition and development expertise with homebuilding operations;

Focusing offerings on specific customer groups;

Building aspirational homes for our customers and delivering superior customer service;

Maintaining a strong capital structure;

Selectively pursuing acquisitions; and

Employing and retaining a highly experienced management team with a strong operating track record.

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### **Homebuilding Operations**

#### ***Homebuilding Overview***

We focus on developing lifestyle communities in core locations, which have many distinguishing attributes, including proximity to job centers, strong school systems and a variety of local amenities in well-regarded submarkets. We offer a range of designs, some of them award-winning, through our single-family detached and attached product lines. We engineer our homes for energy-efficiency and cost savings to reduce the impact on the environment. Although the majority of the communities we build primarily attract move-up buyers, our portfolio also includes quality entry-level, luxury and 55+ products. We serve all generational groups through our products and focus on the needs of homebuyers. During 2014, the allocation of sales in our portfolio, based on price point, was 16% entry-level, 36% first move up, 31% second move-up, 15% 55+ and 2% urban infill.

We strive to maintain consumer product and price level diversification. We target the largest and most profitable consumer groups while attempting to balance our regional market portfolios across a variety of demographics. Our ability to build at multiple price points enables us to respond to changing consumer preferences and address shifts in affordability. We also use measures of market specific supply and demand characteristics to determine which consumer groups are ultimately targeted and will be the most profitable in a specific land position.

We generally operate as community developers. Community development includes the acquisition and development of large-scale communities that may include significant planning and entitlement approvals and construction of off-site and on-site utilities and infrastructure. In some communities we operate solely as merchant builders, in which case, we acquire fully planned and entitled lots and may construct on-site improvements but normally do not construct significant off-site utility or infrastructure improvements.

We develop, own and operate golf courses as well as amenity rich community centers associated with a number of our master planned communities. In 2014, our Esplanade Golf & Country Clubs in Naples and Lakewood Ranch, Florida were voted two of the top ten new courses in the United States by Golf Digest. We also have investments in, and are participants in, a number of joint ventures with related and unrelated parties to develop land and master-planned communities.

We have developed a number of home designs with features such as single-story living, split bedroom plans and first floor master bedroom suites to appeal to universal design needs. We have integrated these designs and features in many of our homes and communities. We engage unaffiliated architectural firms and internal architectural resources to develop new designs and augment existing plans in order to ensure that our homes reflect current and local consumer tastes. During the past year, we introduced 143 new single-family detached and attached floor plans.

The life cycle of a community generally ranges from three to five years, commencing with the acquisition of land, continuing through the land development phase, and concluding with the sale, construction, and delivery of homes. Actual community lives will vary based on the size of the community, the sales absorption rate, and whether we purchased the property as raw land or as developed lots.

A summary of our U.S. homebuilding activity by segment as of and for the year ended December 31, 2014 is as follows:

(Dollars in thousands)

**Year Ended December 31, 2014**

**At December 31, 2014**

	<b>Homes Closed</b>	<b>Average Selling Price of Closed Homes</b>	<b>Homes Sold</b>	<b>Average Selling Price of Active Communities</b>	<b>Homes in Backlog</b>	<b>\$ Value of Backlog</b>
East	3,578	\$ 420	3,743	151	1,709	\$ 806,848
West	2,064	540	1,985	55	543	292,919
<b>Total</b>	<b>5,642</b>	<b>\$ 464</b>	<b>5,728</b>	<b>206</b>	<b>2,252</b>	<b>\$ 1,099,767</b>

For financial information about our segments, see *Note 18 Operating and Reporting Segments* to our consolidated financial statements for the year ended December 31, 2014.

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Locating and acquiring suitable land positions is a core part of our strategy as a developer and homebuilder. In order to maximize our expected risk-adjusted return, the allocation of capital for land investment is performed at the corporate level with a disciplined approach to overall portfolio management. Our investment committee meets on a regular basis, and consists of four of our senior executives. Annually, our operating divisions prepare a strategic plan for their specific geographies. Macro and micro indices, such as employment, housing starts, new home sales, re-sales and foreclosures, along with market related shifts in competition, land availability and consumer preferences, are carefully analyzed to determine the land and homebuilding strategy. Supply and demand are analyzed on a consumer segment and submarket basis to ensure land investment is targeted appropriately. The long-term plan is compared on an ongoing basis to current conditions in the marketplace as they evolve and is adjusted to the extent necessary. Major development strategy decisions regarding community positioning are included in the underwriting process and are made in consultation with senior members of our management team. Our existing land portfolio as of December 31, 2014 and 2013 is detailed below:

Owned Lots December 31, 2014						Controlled Lots December 31, 2014				
	Raw	Partially Developed	Finished	Long-Term Strategic Assets	Total	Raw	Partially Developed	Finished	Total	Total Owned and Controlled
East	7,090	6,112	5,220	1,952	20,374	5,508	1,510	605	7,623	27,997
West	2,735	2,568	3,507	1,612	10,422	246	122	67	435	10,857
<b>Total</b>	<b>9,825</b>	<b>8,680</b>	<b>8,727</b>	<b>3,564</b>	<b>30,796</b>	<b>5,754</b>	<b>1,632</b>	<b>672</b>	<b>8,058</b>	<b>38,854</b>

Owned Lots December 31, 2013						Controlled Lots December 31, 2013				
	Raw	Partially Developed	Finished	Long-Term Strategic Assets	Total	Raw	Partially Developed	Finished	Total	Total Owned and Controlled
East	8,768	6,110	4,368	1,922	21,168	7,028	876	901	8,805	29,973
West	2,818	2,721	2,849	1,807	10,195	1,897	121	45	2,063	12,258
<b>Total</b>	<b>11,586</b>	<b>8,831</b>	<b>7,217</b>	<b>3,729</b>	<b>31,363</b>	<b>8,925</b>	<b>997</b>	<b>946</b>	<b>10,868</b>	<b>42,231</b>

In the land purchasing process, specific projects of interest are detailed by the local divisional team, including proposed ownership structure, environmental concerns, anticipated product segmentation, competitive environment and financial returns. We also determine whether further spending on currently owned and controlled land is a well-timed and appropriate use of capital. Our investment strategy emphasizes expected profitability to reflect the risk and timing of returns, and the level of sales volume in new and existing markets.

**Lot Development Status**



(Dollars in thousands)	As of December 31, 2014		As of December 31, 2013	
	Book Value of Land and		Book Value of Land and	
Development Status	Owned Lots	Development	Owned Lots	Development
Raw land	9,825	\$ 464,882	11,586	\$ 381,836
Partially developed	8,680	654,759	8,831	474,756
Finished lots	8,727	787,033	7,217	666,753
Long-term strategic assets	3,564	27,993	3,729	27,988
<b>Total</b>	<b>30,796</b>	<b>\$ 1,934,667</b>	<b>31,363</b>	<b>\$ 1,551,333</b>

Raw land represents property that has not been developed and remains in its natural state. Partially developed represents land where the grading and development process has begun. Finished lots represent those lots where the horizontal development is complete and are ready for the vertical development. Long-term strategic assets are those lots where we are currently not doing any development.

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At December 31, 2014, the allocation of lots held in our land portfolio, by year acquired, was 16% in 2014, 22% in 2013, 22% in 2012, and 40% in 2011 and earlier.

**Homes in Inventory**

We manage our inventory of homes under construction by selectively commencing construction to capture new home demand, while monitoring the number and aging of unsold homes. As of December 31, 2014, we had a total of 3,606 homes in inventory, which included 2,252 homes under contract but not yet closed.

The following is a summary of our homes in inventory by segment as of December 31, 2014:

<b>(Dollars in thousands)</b>	<b>Homes in Backlog</b>	<b>Models</b>	<b>Inventory to be Sold</b>	<b>Total</b>	<b>Inventory Value without Land</b>
East	1,709	199	572	2,480	\$ 288,423
West	543	119	464	1,126	193,654
<b>Total</b>	<b>2,252</b>	<b>318</b>	<b>1,036</b>	<b>3,606</b>	<b>\$ 482,077</b>

We expect that during 2015 we will deliver substantially all homes in backlog at December 31, 2014.

**Community Development**

We create a complete concept for each community, beginning with an overall community layout and then determine the size, style and price range of the homes, the layout of the streets and positioning of the individual home sites. After necessary governmental and other approvals have been obtained, we improve the land by clearing and grading, installing roads, underground utility lines, staking out individual home sites and, in certain communities, erecting distinctive entrance structures and recreational amenities.

Each community has personnel that perform superintendent, sales and customer service functions, in conjunction with a local management team to manage the general project.

Although the construction time for our homes varies from project to project depending on geographic region, the time of year, the size and complexity of the homes, local labor situations, the governmental approval processes, availability of materials and supplies, and other factors, we complete the construction of a typical home in approximately six months.

**Procurement and Construction**

We have a comprehensive procurement program that leverages our size and national presence to achieve efficiencies and cost savings. Our objective in procurement is to maximize efficiencies on local, regional and national levels and to ensure consistent utilization of established contractual arrangements.

The program currently involves over 40 vendors and includes highly reputable and well-established companies who supply us with lumber, appliances, HVAC systems, insulation, roofing, paint and lighting, among other materials.

Through these relationships, we are able to realize savings on the costs of essential materials. Contracts are typically structured to include a blend of attractive upfront pricing and rebates and, in some cases, advantageous retroactive pricing in instances of contract renewals. The program arrangements are typically not designed to be completely exclusive in nature; for example, in many instances, divisions may choose to use local or alternate suppliers if they find cost savings by doing so. However, our divisions have historically made use of over 80% of our national procurement contracts, largely as a result of the advantageous pricing available under such contracts.

In addition to cost advantages, these arrangements also help minimize the risk of construction delays during supply shortages, as we are often able to leverage our size to obtain our full allocation of required materials. Furthermore, these arrangements sometimes include provisions for cooperative marketing, which allow us to extend the reach and effectiveness of our advertising efforts.

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### **Trades and Labor**

Our construction, land and purchasing managers coordinate subcontracting services and supervise all aspects of construction work and quality control. We are a general contractor for all of our homebuilding projects in the U.S. Subcontractors perform all home construction and land development work, generally under fixed-price contracts. The availability of labor, specifically as it relates to qualified tradespeople, at reasonable prices is a challenge in some markets as the supply chain responds to uneven industry growth and other economic factors that affect the number of people in the workforce.

### **Sources and Availability of Raw Materials**

Based on local market practices, we either directly, or indirectly through our subcontractors, purchase drywall, cement, steel, lumber, insulation and the other building materials necessary to construct a home. While these materials are generally widely available from a variety of sources, from time to time we experience material shortages on a localized basis, particularly during periods where the regions in which we operate experience natural disasters that have a significant impact on existing residential and commercial structures and during periods of robust construction activity when there is high demand for newly built homes. During these periods, the prices for these materials can substantially increase and our construction process can be slowed. We generally have multiple sources for the materials we purchase and have not experienced significant delays due to unavailability of necessary materials.

### **Sales and Marketing**

Our marketing program calls for a balanced approach of corporate support and local expertise to attract potential homebuyers in a focused, efficient and cost-effective manner. Our sales and marketing team provides a generalized marketing framework across our regional operations as well as sales training to our local teams. Our divisional sales and marketing teams utilize local media and marketing streams to deliver a unique message that is relevant to our consumer groups in each market.

Our goal is to identify the preferences of our customer and demographic groups and offer them innovative, high-quality products that are efficient and profitable to build. To achieve this goal, we conduct extensive market research to determine preferences of our customer groups and are able to focus on particular lifestyle preferences in determining the product to build.

We have gathered data regarding specific consumer preferences for various customer groups. Our approach to customer group identification guides all of our operations from the initial land acquisition through to our design, building, marketing and delivery of homes and our ongoing after-sales customer service. Among our peers, we believe we are at the forefront of directed marketing strategies, as evidenced by our highly-trafficked Internet site and strategic partnerships with nationally recognized retailers.

The central element of our marketing platform is our web presence at [www.taylormorrison.com](http://www.taylormorrison.com) and [www.darlinghomes.com](http://www.darlinghomes.com) (none of which is a part of this Annual Report). The main purpose of these websites is to direct potential customers to one of our sales teams. The website also offers the ability of customers to evaluate floor plans, elevations, square footage, community amenities and geographic location. Customers are also able to use the websites to make inquiries and to receive a prompt response from one of our Internet Home Consultants. The websites are fully integrated with our customer relationship management ( CRM ) system. By analyzing the content of the CRM, we are able to focus our lead generation programs to deliver high-quality sales leads. With these leads we are better able to increase sale conversion rates and lower marketing costs. We have significant web search optimization on our sites, including specific key words, meta data and tags on the site to help crawlers from search engines to find content.

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

In addition to our website, we utilize print, radio and television for advertising purposes, including directional marketing, newspapers and billboards. We also directly notify local real estate agents and firms of any new community openings in order to use the existing real estate agent/broker channels in each market. Pricing for our homes is evaluated weekly based on an analysis of market conditions, competitive environment and supply and demand characteristics.

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We use furnished model homes as a marketing tool to demonstrate the advantages of the designs, features and functionality of our homes. We generally employ or contract with interior and landscape designers who create attractive model homes that highlight the features and options available for the product line within a project. Depending upon the number of homes to be built in the project and the product lines to be offered, we generally build between one and three model homes for each active selling community. At December 31, 2014, we owned 318 model homes in 192 different communities.

Generally, our homes are sold by our commissioned employees who work from sales offices located within our model homes. We also employ a team of Internet sales associates who offer assistance to potential buyers viewing our homes over the Internet. At December 31, 2014, we had approximately 390 full-time sales and marketing personnel. Our goal is to ensure our sales force has extensive knowledge of our homes, energy efficient features, sales strategies, mortgage options and community dynamics. To achieve this goal, we have on-going training for our sales associates and conduct regular meetings to keep them abreast of the latest promotions, options and sales techniques and discuss geographic competition. Our sales associates are licensed real estate agents where required by law and assist our customers in adding design features to their homes, which we believe appeal to local consumer preferences. Third-party brokers who sell our homes are generally paid a sales commission based on the price of the home. In some of our businesses, we contract with third-party design studios that specialize in assisting our homebuyers with options and upgrades to personalize their homes. Utilizing these third-party design studios allows us to manage our overhead and costs more efficiently. We may also offer various sales incentives, including price concessions, assistance with closing costs, and landscaping or interior upgrades. The use, types and amount of incentives depends largely on existing economic and local competitive market conditions.

## ***Warranty Program***

We offer warranties on homes that generally provide for limited one-year warranty to cover various defects in workmanship or materials or to cover structural construction defects. We may also facilitate a ten year warranty in certain markets or to comply with regulatory requirements. The structural warranty is carried by Beneva Indemnity Company ( Beneva ), one of our wholly owned subsidiaries. We also provide third-party warranty coverage on homes where required by Federal Housing Administration or Veterans Administration lenders.

## ***Competition***

The homebuilding business is highly competitive and fragmented. We compete with numerous homebuilders of varying sizes, ranging from local to national in scope, some of which have greater sales and financial resources than us. Sales of existing homes, whether by a homeowner or by a financial institution that has acquired a home through a foreclosure, also provide competition. We compete primarily on the basis of price, location, design, quality, service and reputation.

Competition among residential homebuilders of all sizes is based on a number of interrelated factors, including location, reputation, amenities, floor plans, design, quality and price. We believe that we compare favorably to other homebuilders in the markets in which we operate.

In order to maximize our sales volumes, profitability and product strategy, we strive to understand our competition and their pricing, product and sales volume strategies and results. During the most recent economic downturn, market conditions also led to a large number of foreclosed and short sale homes being offered for sale, which increased competition and affected pricing. However, we took a proactive approach to distancing ourselves from highly affected submarkets, enabling us to drive sales in our markets without competing as directly with foreclosures.

## **Mortgage Operations**

TMHF provides a number of mortgage-related services to our customers through our mortgage lending operations. The strategic purpose of TMHF is:

to utilize mortgage finance as a sales tool in the purchase process to ensure a consistent customer experience and assist in maintaining production efficiency; and

to control and assist in determining our backlog quality and to better manage projected closing and delivery dates for our customers.

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TMHF operates as an independent mortgage banker and conducts its business as a Federal Housing Authority ( FHA ) Full Eagle lender. TMHF funds mortgage loans utilizing warehouse credit line facilities. Revenue is earned through origination and processing fees combined with service release premiums earned in the secondary market once the loans are sold to investors. Loans are sold servicing released, typically within 20 business days.

TMHF competes with other mortgage lenders, including national, regional and local mortgage bankers and other financial institutions. TMHF utilizes a multi-investor correspondent platform which gives us increased flexibility when placing loans to meet our customers' needs. TMHF has continued to expand and strengthen our investor partnerships. This has created stability and consistency in our origination process and delivery. In 2014 we experienced increased competition in our mortgage operations business as the industry focused on growing originations from purchases. Our focus and expertise has always been and remains dedicated to the financing of new home construction.

## **Seasonality**

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

the timing of the introduction and start of construction of new projects;

the timing of project sales;

the timing of closings of homes, lots and parcels;

our ability to continue to acquire land and options on acceptable terms;

the timing of receipt of regulatory approvals for development and construction;

the condition of the real estate market and general economic conditions in the areas in which we operate;

mix of homes closed;

construction timetables;



the prevailing interest rates and the availability of financing, both for us and for the purchasers of our homes;

the cost and availability of materials and labor; and

weather conditions in the markets in which we build.

As a result of seasonal activity, our quarterly results of operations and financial position are not necessarily representative of a full fiscal year. To illustrate the seasonality in net homes sold, homes closed and home closings revenue, a summary of the quarterly financial data follows:

	<b>2014</b>				<b>2013<sup>(1)</sup></b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
Net homes sold	26.4%	26.8%	24.2%	22.6%	30.9%	28.0%	20.3%	20.8%
Homes closed	18.7%	22.8%	23.6%	34.9%	19.2%	24.4%	25.4%	31.0%
Home closings revenue	17.4%	22.2%	23.5%	36.9%	17.3%	23.5%	25.8%	33.4%
Net income from continuing operations	16.4%	20.1%	21.9%	41.6%	57.2%	(307.8)%	108.1%	242.5%

- <sup>(1)</sup> The IPO occurred in April 2013, and as such, certain one-time charges affected net income from continuing operations.

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### **Regulation, Environmental, Health and Safety Matters**

#### ***Regulatory***

We are subject to various local, state and federal statutes, ordinances, rules and regulations concerning zoning, building design, construction and similar matters, including local regulations that impose restrictive zoning and density requirements in order to limit the number of homes that can eventually be built within the boundaries of a particular property or locality. In a number of our markets, there has been an increase in state and local legislation authorizing the acquisition of land as dedicated open space, mainly by governmental, quasi-public and non-profit entities. In addition, we are subject to various licensing, registration and filing requirements in connection with the construction, advertisement and sale of homes in our communities. The impact of these laws has been to increase our overall costs, and may have delayed the opening of communities or caused us to conclude that development of particular communities would not be economically feasible, even if any or all necessary governmental approvals were obtained. We also may be subject to periodic delays or may be precluded entirely from developing communities due to building moratoriums in one or more of the areas in which we operate. Generally, such moratoriums relate to insufficient water, power, drainage or sewage facilities or inadequate road capacity.

In order to secure certain approvals in some areas, we may be required to provide affordable housing at below market rental or sales prices. The impact on us depends on how the various state and local governments in the areas in which we engage, or intend to engage, in development implement their programs for affordable housing. To date, these restrictions have not had a material impact on us.

TMHF is subject to various state and federal statutes, rules and regulations, including those that relate to licensing, lending operations and other areas of mortgage origination and financing. The impact of those statutes, rules and regulations can increase our homebuyers' cost of financing, increase our cost of doing business, as well as restrict our homebuyers' access to some types of loans. Certain requirements provided for by the Dodd-Frank Act have not yet been finalized or fully implemented. The effect of such provisions on our financial services business will depend on the rules that are ultimately enacted.

In order for our homebuyers to finance their home purchases with FHA-insured, Veterans Administration-guaranteed or U.S. Department of Agriculture-guaranteed mortgages, we are required to build such homes in accordance with the regulatory requirements of those agencies.

Some states have statutory disclosure requirements or other pre-approval requirements or limitations governing the marketing and sale of new homes. These requirements vary widely from state to state.

Some states require us to be registered as a licensed contractor, a licensed real estate broker and in some markets our sales agents are additionally required to be registered as licensed real estate agents.

#### ***Environmental***

We also are subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning protection of public health and the environment (collectively, "environmental laws"). The particular environmental laws that apply to any given community vary greatly according to the location and environmental condition of the site and the present and former uses of the site. Complying with these environmental laws may result in delays, may cause us to incur substantial compliance and other costs, and/or may prohibit or severely restrict development in certain environmentally sensitive regions or areas.

As part of the land acquisition due diligence process, we utilize environmental assessments to identify environmental conditions that may exist on potential acquisition properties. To date, environmental site assessments conducted at our properties have not revealed any environmental liability or compliance concerns that we believe would have a material adverse effect on our business, liquidity or results of operations, nor are we aware of any material environmental liability or concerns.

We manage compliance with federal, state and local environmental requirements at the division level with assistance from the corporate and regional legal departments, including environmental regulations related to U.S. Storm Water

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Pollution Prevention, U.S. Endangered Species Act, U.S. Wetlands Permitting, NPDES Permitting, Cultural Resources, dust control measures and state and local preservation ordinances.

## ***Health and Safety***

We are committed to maintaining high standards in health and safety at all of our sites, to ensure the safety of our team members, our trade partners, our customers and prospects and the general public. That commitment is tested through our health and safety audit system that includes comprehensive twice-yearly independent third-party inspections of selected sites covering all aspects of health and safety. A key area of focus is ensuring that site conditions meet exacting health and safety standards and that subcontractor performance throughout our operating areas meets or exceeds expectations. All of our team members must complete an assigned curriculum of online safety courses each year. These courses vary according to job responsibility. In addition, groups such as construction and field personnel are required to attend additional training programs such as the Occupational Safety and Health Administration 10-hour course, First-Aid and CPR.

## **Information Technology**

We have a centralized information technology organization with its core team located at our corporate headquarters in Scottsdale, augmented with field support technicians in key locations across the U.S. Our approach to information technology is to continuously simplify our information technology platform and consolidate and standardize applications. We believe a common application platform enables the sharing of ideas and rapid implementation of process improvements and best practices across the entire company. Our back-office operations use a fully integrated, industry recognized enterprise resource planning package. Marketing and field sales utilize a leading CRM solution that tracks leads and prospects from all sources and manages the customer communication process from lead creation through the buying process and beyond the post-warranty period. Field operations teams collaborate with the supply chain to schedule and manage development and construction projects with a set of standard and widely used homebuilding industry solutions.

## **Intellectual Property**

We own certain logos and trademarks that are important to our overall branding and sales strategy. Our consumer logos are designed to draw on a recognized homebuilding heritage while emphasizing a customer-centric focus.

## **Employees, Subcontractors and Consultants**

As of December 31, 2014, we employed 1,498 full-time equivalent persons, which includes 195 employees in our discontinued Canadian business. Of these, 1,348 were engaged in corporate and homebuilding operations, and the remaining 150 were engaged in mortgage services. As of December 31, 2014, we were not subject to collective bargaining agreements. We consider our employee relations to be good.

We act solely as a general contractor, and all construction operations are supervised by our project managers and field superintendents who manage third party subcontractors. We use independent consultants and contractors for some architectural, engineering, advertising and legal services, and we strive to maintain good relationships with our subcontractors and independent consultants and contractors.

## **2011 Acquisition by our Principal Equityholders**

In July 2011, TPG, Oaktree and JH formed TMM Holdings to acquire TMC and Monarch from U.K. based Taylor Wimpey plc for aggregate cash consideration of approximately \$1.2 billion (the Acquisition ). In the acquisition, Class A Units of TMM Holdings were issued to TPG and Oaktree, Class J Units of TMM Holdings were issued to JH, and Class A and Class M Units of TMM Holdings were issued to were issued to various members of our Board of Directors and management.

The Acquisition was financed in part by a \$620.3 million cash equity contribution by the Principal Equityholders and a \$625 million senior unsecured credit facility with affiliates of TPG and Oaktree, consisting of a \$500 million bridge loan

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facility and a \$125 million incremental bridge loan facility (collectively, the Sponsor Loan ). We repaid the \$125 million bridge facility in August 2011 and repaid \$350 million of the Sponsor Loan in April 2012 with a portion of the proceeds of the issuance of \$550 million of 7.75% Senior Notes due 2020 (the 2020 Senior Notes ). The affiliates of TPG and Oaktree who were lenders under the Sponsor Loan caused the then remaining \$150.0 million of the Sponsor Loan to be acquired by a subsidiary of TMM Holdings, and affiliates of TPG and Oaktree acquired an additional \$150.0 million of limited partnership interests in TMM Holdings.

## **Reorganization and Initial Public Offering**

In connection with the completion of the IPO, we completed a series of transactions (the Reorganization Transactions ) in which TMHC became the indirect parent of TMM Holdings through the formation of a new Cayman Islands limited partnership, New TMM. New TMM has only a single class of partnership units, New TMM Units, which are held (as described below) by TMHC and by entities affiliated with the Principal Equityholders.

In the Reorganization Transactions:

TPG and Oaktree each formed new holding vehicles to hold interests in New TMM (the TPG Holding Vehicle and the Oaktree Holding Vehicle, respectively and, together, the TPG and Oaktree Holding Vehicles );

The Principal Equityholders and members of TMHC's management and Board directly or indirectly exchanged all of their respective Class A Units, Class J Units and performance-vesting Class M Units in TMM Holdings on a one-for-one basis for new equity interests of the TPG and Oaktree Holding Vehicles with terms that are substantially the same as the Class A Units (other than certain Class A Units exchanged by JH as described below), Class J Units (other than with respect to certain vesting conditions) and performance-vesting Class M Units in TMM Holdings surrendered for exchange;

JH exchanged a portion of its Class A Units in TMM Holdings for New TMM Units to be held by JH;

Members of TMHC's management and Board exchanged all of their time-vesting Class M Units in TMM Holdings for New TMM Units with vesting terms that are substantially the same as those of the Class M Units surrendered for exchange;

New TMM directly or indirectly acquired all of the Class A Units, Class J Units and Class M Units in TMM Holdings outstanding prior to the Reorganization Transactions; and

The TPG and Oaktree Holding Vehicles directly or indirectly acquired New TMM Units. The number of New TMM Units issued to each of the TPG and Oaktree Holding Vehicles, JH and members of TMHC's management and Board, as described above, was determined based on a hypothetical cash distribution by TMM Holdings of TMHC's pre-IPO value to the holders of Class A Units, Class J Units and Class M Units of TMM Holdings, the IPO price and the price per share paid by the underwriters for shares of Class A Common Stock in the

IPO.

In connection with the Reorganization Transactions, the TPG and Oaktree Holding Vehicles, JH and members of TMHC's management and Board were also issued a number of shares of TMHC's Class B Common Stock equal to the number of New TMM Units that each received. One share of Class B Common Stock, together with one New TMM Unit is exchangeable into one share of Class A Common Stock. We granted the Principal Equityholders registration rights with respect to the resale of any such shares of Class A Common Stock that they receive in any such exchange. See *Risk Factors* *The Principal Equityholders have substantial influence over our business, and their interests may differ from our interests or those of our other stockholders.*

In connection with the Reorganization Transactions, TMHC recorded a one-time, non-cash charge of \$80.2 million (based on the IPO price of \$22.00 and other factors) in respect of the modification of the Class J Units in TMM resulting from the termination of a management services agreement that was entered into in connection with the Acquisition between JH and TMM Holdings (the JHI Services Agreement) and the direct or indirect exchange (on a one-for-one basis) of the Class J Units for units having substantially equivalent performance vesting and distribution terms in the TPG and Oaktree Holding Vehicles.

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In connection with the Acquisition in July 2011, affiliates of the Principal Equityholders entered into management services agreements with TMM Holdings, Taylor Morrison Holdings, Inc. ( Taylor Morrison Holdings ) and Monarch Communities Inc. ( Monarch Communities ) relating to the provision of certain management, advisory and consulting services. In consideration of financial and structural advice and analysis made in connection with the Acquisition, Taylor Morrison Holdings and Monarch Communities paid a one-time transaction fee of \$13.7 million to the Principal Equityholders and also reimbursed the Principal Equityholders for third-party, out-of-pocket expenses incurred in connection with the Acquisition, including fees, expenses and disbursements of attorneys, accountants, consultants and other advisors. In addition, as compensation for ongoing services provided by affiliates of the Principal Equityholders under the management services agreements, Taylor Morrison Holdings and Monarch Communities agreed to pay to affiliates of the Principal Equityholders an annual aggregate management fee of \$5.0 million. Immediately prior to the IPO, the management services agreements were terminated in exchange for an aggregate payment pursuant to the terms of such agreements of \$29.8 million split equally between TPG and Oaktree.



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**ITEM 1A. RISK FACTORS**

**Risks related to our industry and our business**

*Our business is cyclical and is significantly affected by changes in general and local economic conditions.*

Our business can be substantially affected by adverse changes in general economic or business conditions that are outside of our control, including changes in:

short- and long-term interest rates;

the availability and cost of financing for homebuyers;

employment levels, job and personal income growth and household debt-to-income levels;

consumer confidence generally and the confidence of potential homebuyers in particular;

the ability of existing homeowners to sell their existing homes at prices that are acceptable to them;

U.S. and global financial system and credit markets, including stock market and credit market volatility;

private and federal mortgage financing programs and federal and state regulation of lending practices;

federal and state income tax provisions, including provisions for the deduction of mortgage interest payments;

housing demand from population growth and demographic changes (including immigration levels and trends in urban and suburban migration);

demand from foreign buyers for our homes, which may fluctuate according to economic circumstances in foreign markets;

the supply of available new or existing homes and other housing alternatives, such as apartments and other residential rental property;

real estate taxes; and

the supply of developable land in our markets and in the United States generally.

Adverse changes in these conditions may affect our business nationally or may be more prevalent or concentrated in particular regions or localities in which we operate. During the most recent economic downturn, unfavorable changes in many of the above factors negatively affected all of the markets we serve. Economic conditions in all our markets continue to be characterized by levels of uncertainty, which has impacted business or consumer confidence in those markets. For example, fluctuations in oil and gas prices may create economic uncertainty, particularly in regions of Texas where we have significant operations. Any deterioration in economic conditions or continuation of uncertain economic conditions would have a material adverse effect on our business.

In addition, a public health issue such as a major epidemic or pandemic could adversely affect economic conditions. The U.S. and other countries have experienced, and may experience in the future, outbreaks of contagious diseases that affect public perception of health risk. In the event of a widespread, prolonged, actual or perceived outbreak of a contagious disease, our operations could be negatively impacted by a reduction in customer traffic or other factors that could reduce demand for new homes.

Inclement weather, natural disasters (such as earthquakes, hurricanes, tornadoes, floods, droughts and fires), and other environmental conditions may delay the delivery of our homes and/or increase our costs. Civil unrest or acts of terrorism, or other acts of violence or threats to national security, may also have a negative effect on our business.

Adverse changes in economic conditions can cause demand and prices for our homes to diminish or cause us to take longer to build our homes and make it more costly for us to do so. We may not be able to recover these increased costs by raising prices because of weak market conditions and because the price of each home we sell is usually set several months before the home is delivered, as many customers sign their home purchase contracts before construction begins. The potential difficulties described above could impact our customers' ability to obtain suitable financing and cause some homebuyers to cancel or refuse to honor their home purchase contracts altogether.

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***The recent improvement in housing market conditions follows a significant downturn, and the likelihood of a full recovery is uncertain in the current state of the economy. A slowdown in our business could have additional adverse effects on our operating results and financial condition.***

In connection with the most recent downturn in the U.S. housing market, we incurred substantial losses, after impairments, in our U.S. operations during 2008 and 2009. Although the U.S. housing market continues to recover, we cannot predict the extent of further recovery or its timing. Some markets and submarkets have been stronger than others. We expect that such unevenness will continue, whether or not the present housing recovery progresses and prevailing conditions in various housing markets and submarkets will continue to fluctuate. These fluctuations may be significant and unfavorable. In addition, while some of the many negative factors that contributed to the housing downturn may have moderated, several remain, and they could return and/or intensify to inhibit any future improvement in housing market conditions in 2015.

In addition, as a result of the recent disposition of our Canadian business, we are more exposed to economic conditions in the United States and are therefore less diversified than we were prior to the disposition. Consequently, our results of operations may be more volatile in the future than they have been historically.

Though we have taken steps to alleviate the impact of these conditions on our business, given the most recent downturn in the homebuilding industry and global economic uncertainty, there can be no guarantee that steps taken by us will continue to be effective, and to the extent the current economic environment does not improve or any improvement takes place over an extended period of time, our business, financial condition and results of operations may be adversely affected.

***If homebuyers are not able to obtain suitable financing, our results of operations may decline.***

A substantial majority of our homebuyers finance their home purchases through lenders that provide mortgage financing. The availability of mortgage credit remains constrained, due to various regulatory changes and lower risk appetite by lenders, with many lenders requiring increased levels of financial qualification, including lenders adhering to the new Qualified Mortgage requirements and ability to repay standard, and lending lower multiples of income. Investors and first-time homebuyers are generally more affected by the availability of financing than other potential homebuyers. These buyers are a key source of our demand. A limited availability of home mortgage financing may adversely affect the volume of our home sales and the sales prices we achieve.

During the last several years, the mortgage lending industry has experienced significant instability, beginning with increased defaults on subprime loans and other nonconforming loans and compounded by expectations of increasing interest payments requirements and further defaults. Lending requirements and standards remain tightened and as a result, investor demand for mortgage loans and mortgage-backed securities has declined. The liquidity provided by government sponsored entities, such as Fannie Mae, Freddie Mac, Ginnie Mae, the FHA and Veterans Administration, to the mortgage industry has been very important to the housing market. Several federal government officials have proposed changing the nature of the relationship between Fannie Mae and Freddie Mac and the federal government and even nationalizing or eliminating these entities entirely. If Fannie Mae and Freddie Mac were dissolved or if the federal government determined to stop providing liquidity support to the mortgage market, there would be a reduction in the availability of the financing provided by these institutions. Any such reduction would likely have an adverse effect on interest rates, mortgage availability and our sales of new homes. For instance, in March 2014, a proposal was introduced in the U.S. Senate to overhaul the mortgage market by replacing Fannie Mae and Freddie Mac with a new system of federally insured mortgage securities. The proposal may not be enacted, and its effects on the residential mortgage market are not predictable at this time. Such an overhaul may reduce the availability of residential mortgage loans or increase the cost of such loans to borrowers, which could materially and adversely affect both our

homebuilding and Mortgage Operations businesses.

The FHA insures mortgage loans that generally have lower loan payment requirements and qualification standards compared to conventional guidelines, and as a result, continue to be a particularly important source for financing the sale of our homes. In recent years, lenders have taken a more conservative view of FHA guidelines causing significant tightening of borrower eligibility for approval. Further restrictions are expected on FHA-insured loans, including limitations on seller-paid closing costs and concessions. This or any other restriction may negatively affect the

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availability or affordability of FHA financing, which could adversely affect our ability to sell homes in the U.S. In addition, changes in federal regulatory and fiscal policies relating to currently available benefits for homeowners (including a repeal of the currently available home mortgage interest tax deduction) may also negatively affect potential homebuyers' ability to purchase homes.

In each of our markets, decreases in the availability of credit and increases in the cost of credit adversely affect the ability of homebuyers to obtain or service mortgage debt. Even if potential homebuyers do not themselves need mortgage financing, where potential homebuyers must sell their existing homes in order to buy a new home, increases in mortgage costs, lack of availability of mortgages and/or regulatory changes could prevent the buyers of potential homebuyers' existing homes from obtaining a mortgage, which would result in our potential customers' inability to buy a new home. Similar risks apply to those buyers who are awaiting delivery of their homes and are currently in backlog. The success of homebuilders depends on the ability of potential homebuyers to obtain mortgages for the purchase of homes. If our customers (or potential buyers of our customers' existing homes) cannot obtain suitable financing our sales and results of operations could be adversely affected.

***An inability to obtain additional performance, payment and completion surety bonds and letters of credit could limit our future growth.***

We are often required to provide performance, payment and completion and warranty/maintenance surety bonds or letters of credit to secure the completion of our construction contracts, development agreements and other arrangements. We have obtained credit facilities to provide the required volume of performance, payment and completion and warranty maintenance surety bonds and letters of credit for our expected growth in the medium term; however, unexpected growth may require additional facilities. We may also be required to renew or amend our existing facilities. Our ability to obtain additional performance, payment and completion and warranty/maintenance surety bonds and letters of credit primarily depends on our credit rating, capitalization, working capital, past performance, management expertise and certain external factors, including the capacity of the markets for such bonds. Performance, payment and completion and warranty/maintenance surety bond and letter of credit providers consider these factors in addition to our performance and claims record and provider-specific underwriting standards, which may change from time to time.

If our performance record or our providers' requirements or policies change, if we cannot obtain the necessary consent from our lenders, or if the market's capacity to provide performance, payment and completion or warranty/maintenance bonds or letters of credit is not sufficient for any unexpected growth and we are unable to renew or amend our existing facilities on favorable terms or at all, we could be unable to obtain additional performance, payment and completion and warranty/maintenance surety bonds or letters of credit from other sources when required, which could have a material adverse effect on our business, financial condition and results of operations.

***Higher cancellation rates of existing agreements of sale may have an adverse effect on our business.***

Our backlog reflects sales contracts with our homebuyers for homes that have not yet been delivered. We have received a deposit from a homebuyer for each home reflected in our backlog, and generally we have the right, subject to certain exceptions, to retain the deposit if the homebuyer fails to comply with his or her obligations under the sales contract, including as a result of state and local law, the homebuyer's inability to sell his or her current home or the homebuyer's inability to make additional deposits required prior to the closing date. If prices for new homes decline, if competitors increase their use of sales incentives, if interest rates increase, if the availability of mortgage financing diminishes or if there is a downturn in local or regional economies or in the national economy, U.S. homebuyers may terminate their existing home purchase contracts with us in order to negotiate for a lower price or because they cannot,

or will not, complete the purchase and our remedies generally do not extend beyond the retention of deposits as our liquidated damages.

Cancellation rates may rise in the future. If uncertain economic conditions in the U.S. continue, if mortgage financing becomes less available or if current homeowners find it difficult to sell their current homes, more homebuyers may cancel their sales contracts with us. As a result, our financial condition may deteriorate and you may lose a portion of your investment.

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In cases of cancellation, we remarket the home and usually retain any deposits we are permitted to retain. Nevertheless, the deposits may not cover the additional costs involved in remarketing the home, replacing installed options, reducing the sales price or increasing incentives on the completed home for greater marketability and carrying higher inventory. Further, depending on the stage of cancellation, a contract that is cancelled at the end of a phase may cause additional construction costs, roadway repairs or added nuisances to existing homeowners for the out of sequence construction or modification of the one home. Significant numbers of cancellations could adversely affect our business, financial condition and results of operations.

***The homebuilding and mortgage services industries are highly competitive and, if our competitors are more successful or offer better value to our customers, our business could decline.***

We operate in a very competitive environment which is characterized by competition from a number of other homebuilders in each market in which we operate. We compete with large national and regional homebuilding companies and with smaller local homebuilders for land, financing, affiliated or in-house services, raw materials and skilled management, volume discounts, local REALTOR® and labor resources. We also compete with the resale, or previously owned, home market. Increased competition could cause us to increase our selling incentives and reduce our prices. An oversupply of homes available for sale and the heavy discounting of home prices by some of our competitors have adversely affected demand for our homes and the results of our operations in the past and could do so again in the future. Our Mortgage Operations business competes with other mortgage lenders and title companies, including national, regional and local mortgage banks and other financial institutions, some of which are subject to fewer government regulations. Mortgage lenders who are subject to fewer regulations or have greater access to capital or different lending criteria may be able to offer more attractive financing to potential customers. If we are unable to compete effectively in our homebuilding and mortgage services markets, our business could decline disproportionately to our competitors, and our results of operations and financial condition could be adversely affected.

***Any increase in unemployment or underemployment may lead to an increase in the number of loan delinquencies and property repossessions and have an adverse impact on us.***

In the U.S., the unemployment rate was 5.7% as of January 2015, according to the U.S. Bureau of Labor Statistics ( BLS ). In addition, the labor force participation rate reported by the BLS has been declining, from 66.2% in January 2008 to 62.9% in January 2015, potentially reflecting an increased number of discouraged workers who have left the labor force. In addition, a substantial portion of new jobs created have been relatively low-wage jobs or part-time jobs. People who are not employed, are underemployed, who have left the labor force or are concerned about low wages or the loss of their jobs are less likely to purchase new homes, may be forced to try to sell the homes they own and may face difficulties in making required mortgage payments. Therefore, any increase in unemployment or underemployment may lead to an increase in the number of loan delinquencies and property repossessions and have an adverse impact on us both by reducing demand for the homes we build and by increasing the supply of homes for sale.

***Increases in taxes, government fees or interest rates could prevent potential customers from buying our homes and adversely affect our business or financial results.***

Significant expenses of owning a home, including mortgage interest and real estate taxes, generally are deductible expenses for an individual's U.S. federal, and in some cases, state income taxes, subject to various limitations under current tax law and policy. If the U.S. federal government or a state government changes its income tax laws, as has been discussed from time to time, to eliminate, limit or substantially modify these income tax deductions, the after-tax cost of owning a new home would increase for many of our potential customers. The resulting loss or reduction of

homeowner tax deductions, if such tax law changes were enacted without offsetting provisions, or any other increase in any taxes affecting homeowners, would adversely impact demand for and sales prices of new homes.

Increases in property tax rates by local governmental authorities, as experienced in response to reduced federal and state funding, can adversely affect the ability of potential customers to obtain financing or their desire to purchase new homes. Fees imposed on developers to fund schools, open spaces, road improvements, and/or provide low and moderate income housing, could increase our costs and have an adverse effect on our operations. In addition, increases in sales taxes could



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adversely affect our potential customers who may consider those costs in determining whether to make a new home purchase and decide, as a result, not to purchase one of our homes.

In addition, increases in interest rates as a result of changes to monetary policy could significantly increase the costs of owning a home, which in turn would adversely impact demand for and sales prices of homes and the ability of potential customers to obtain financing and adversely affect our business, financial condition and operating results.

### ***Inflation or deflation could adversely affect our business and financial results.***

Inflation can adversely affect us by increasing costs of land, materials and labor. In the event of an increase in inflation, we may seek to increase the sales prices of homes in order to maintain satisfactory margins. However, an oversupply of homes relative to demand and home prices being set several months before homes are delivered may make any such increase difficult or impossible. In addition, inflation is often accompanied by higher interest rates, which historically had a negative impact on housing demand. In such an environment, we may not be able to raise home prices sufficiently to keep up with the rate of inflation and our margins could decrease. Moreover, the cost of capital increases as a result of inflation and the purchasing power of our cash resources declines. Current or future efforts by the government to stimulate the economy may increase the risk of significant inflation and its adverse impact on our business or financial results.

Alternatively, a significant period of deflation could cause a decrease in overall spending and borrowing levels. This could lead to a further deterioration in economic conditions, including an increase in the rate of unemployment. Deflation could also cause the value of our inventories to decline or reduce the value of existing homes below the related mortgage loan balance, which could potentially increase the supply of existing homes and have a negative impact on our results of operations. Declining oil and gas prices may increase the risk of significant deflation and its adverse impact on our business or financial results.

### ***Our quarterly operating results may fluctuate because of the seasonal nature of our business and other factors.***

Our quarterly operating results generally fluctuate by season and also because of the uneven delivery schedule of certain of our products and communities.

Historically, a larger percentage of our agreements of sale have been entered into in the winter and spring. Weather-related problems, typically in the fall, late winter and early spring, may delay starts or closings and increase costs and thus reduce profitability. Seasonal natural disasters such as hurricanes, tornadoes, floods and fires could cause delays in the completion of, or increase the cost of, developing one or more of our communities, causing an adverse effect on our sales and revenues.

In many cases, we may not be able to recapture increased costs by raising prices because we set our prices up to 12 months in advance of delivery upon signing the home sales contract. In addition, deliveries may be staggered over different periods of the year and may be concentrated in particular quarters. Our quarterly operating results may fluctuate because of these factors.

### ***Negative publicity may affect our business performance and could affect our stock price.***

Unfavorable media related to our industry, company, brands, marketing, personnel, operations, business performance, or prospects may affect our stock price and the performance of our business, regardless of its accuracy or inaccuracy. Our success in maintaining, extending and expanding our brand image depends on our ability to adapt to a rapidly changing media environment. Adverse publicity or negative commentary on social media outlets, such as blogs,

websites or newsletters, could hurt operating results, as consumers might avoid brands that receive bad press or negative reviews. Negative publicity may result in a decrease in our operating results.

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***Homebuilding is subject to home warranty and construction defect claims in the ordinary course of business that can be significant.***

As a homebuilder, we are subject to home warranty and construction defect claims arising in the ordinary course of business. There can be no assurance that any developments we undertake will be free from defects once completed. Construction defects may occur on projects and developments and may arise during a significant period of time after completion. Defects arising on a development attributable to us may lead to significant contractual or other liabilities.

As a consequence, we maintain products and completed operations excess liability insurance, obtain indemnities and certificates of insurance from subcontractors generally covering claims related to damages resulting from faulty workmanship and materials, and create warranty and other reserves for the homes we sell based on historical experience in our markets and our judgment of the risks associated with the types of homes built. Although we actively monitor our insurance reserves and coverage, because of the uncertainties inherent to these matters, we cannot provide assurance that our insurance coverage, our subcontractor arrangements and our reserves will be adequate to address all of our warranty and construction defect claims in the future. In addition, contractual indemnities can be difficult to enforce. We may also be responsible for applicable self-insured retentions and some types of claims may not be covered by insurance or may exceed applicable coverage limits. Additionally, the coverage offered by and the availability of products and completed operations excess liability insurance for construction defects is currently limited and costly. This coverage may be further restricted or become more costly in the future.

In 2005 and 2006, we discontinued requiring insurance policies from most of our contractors in California and instead adopted an Owner Controlled Insurance Plan ( OCIP ) for general liability exposures of most subcontractors (excluding consultants), as a result of the inability of subcontractors to procure acceptable insurance coverage to meet our requirements. Under the OCIP, subcontractors are effectively insured by us. We have assigned risk retentions and bid deductions to our subcontractors based on their risk category. These deductions are used to fund future liabilities.

Unexpected expenditures attributable to defects or previously unknown sub-surface conditions arising on a development project may have a material adverse effect on our business, financial condition and operating results. In addition, severe or widespread incidents of defects giving rise to unexpected levels of expenditure, to the extent not covered by insurance or redress against sub-contractors, may adversely affect our business, financial condition and operating results.

***Our reliance on contractors can expose us to various liability risks.***

We rely on contractors in order to perform the construction of our homes, and in many cases, to select and obtain raw materials. We are exposed to various risks as a result of our reliance on these contractors and their respective subcontractors and suppliers, including, as described above, the possibility of defects in our homes due to improper practices or materials used by contractors, which may require us to comply with our warranty obligations and/or bring a claim under an insurance policy. Several other homebuilders have received inquiries from regulatory agencies concerning whether homebuilders using contractors are deemed to be employers of the employees of such contractors under certain circumstances. Although contractors are independent of the homebuilders that contract with them under normal management practices and the terms of trade contracts and subcontracts within the homebuilding industry, if regulatory agencies reclassify the employees of contractors as employees of homebuilders, homebuilders using contractors could be responsible for wage, hour and other employment-related liabilities of their contractors. In the event that a regulatory agency reclassified the employees of our contractors as our own employees, we could be responsible for wage, hour and other employment-related liabilities of our contractors.

***Failure to manage land acquisitions, inventory and development and construction processes could result in significant cost overruns or errors in valuing sites.***

We own and purchase a large number of sites each year and are therefore dependent on our ability to process a very large number of transactions (which include, among other things, evaluating the site purchase, designing the layout of the development, sourcing materials and sub-contractors and managing contractual commitments) efficiently and accurately. Errors by employees, failure to comply with regulatory requirements and conduct of business rules, failings or inadequacies in internal control processes, equipment failures, natural disasters or the failure of external systems,

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including those of our suppliers or counterparties, could result in operational losses that could adversely affect our business, financial condition and operating results and our relationships with our customers.

In certain circumstances, a grant of entitlements or development agreement with respect to a particular parcel of land may include restrictions on the transfer of such entitlements to a buyer of such land, which may increase our exposure to decreases in the price of such entitled land by restricting our ability to sell it for its full entitled value. In addition, inventory carrying costs can be significant and can result in reduced margins or losses in a poorly performing community or market. In recent periods of market weakness, we have sold homes and land for lower margins or at a loss and we have recorded significant inventory impairment charges, and such conditions may recur. The recording of a significant inventory impairment could negatively affect our reported earnings per share and negatively impact the market perception of our business.

***If land and lots are not available at competitive prices, our sales and results of operations could be adversely affected.***

Our long-term profitability depends in large part on the price at which we are able to obtain suitable land and lots for the development of our communities. Increases in the price (or decreases in the availability) of suitable land and lots could adversely affect our profitability. Moreover, changes in the general availability of desirable land, competition for available land and lots, limited availability of financing to acquire land and lots, zoning regulations that limit housing density, environmental requirements and other market conditions may hurt our ability to obtain land and lots for new communities at prices that will allow us to be profitable. If the supply of land and lots that are appropriate for development of our communities becomes more limited because of these factors, or for any other reason, the cost of land and lots could increase and the number of homes that we are able to build and sell could be reduced, which could adversely affect our results of operations and financial condition.

***If the market value of our land inventory decreases, our results of operations could be adversely affected by impairments and write-downs.***

The market value of our land and housing inventories depends on market conditions. We acquire land for expansion into new markets and for replacement of land inventory and expansion within our current markets. There is an inherent risk that the value of the land owned by us may decline after purchase. The valuation of property is inherently subjective and based on the individual characteristics of each property. We may have acquired options on or bought and developed land at a cost we will not be able to recover fully or on which we cannot build and sell homes profitably. In addition, our deposits for lots controlled under option or similar contracts may be put at risk. Factors such as changes in regulatory requirements and applicable laws (including in relation to building regulations, taxation and planning), political conditions, the condition of financial markets, both local and national economic conditions, the financial condition of customers, potentially adverse tax changes, and interest and inflation rate fluctuations subject valuations to uncertainty. Moreover, all valuations are made on the basis of assumptions that may not prove to reflect economic or demographic reality. If housing demand decreases below what we anticipated when we acquired our inventory, our profitability may be adversely affected and we may not be able to recover our costs when we sell and build houses.

Due to economic conditions in the U.S. in recent years, including increased amounts of home and land inventory that entered certain U.S. markets from foreclosure sales or short sales, the market value of our land and home inventory was negatively impacted prior to 2011. Write-downs and impairments have had an adverse effect (and any further write-downs may also have an adverse effect) on our business, financial condition and operating results. We recorded no inventory impairments in 2011, 2012, 2013 or the year ended December 31, 2014. In 2011, the carrying value of all of our land was adjusted to its fair market value as of the date of the Acquisition. We regularly review the value of our

land holdings and continue to review our holdings on a periodic basis. Further material write-downs and impairments in the value of our inventory may be required, and we may in the future sell land or homes at a loss, which could adversely affect our results of operations and financial condition.

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***If we experience shortages in labor supply, increased labor costs or labor disruptions, there could be delays or increased costs in developing our communities or building homes, which could adversely affect our operating results.***

We require a qualified labor force to develop our communities and build our homes. Access to qualified labor may be affected by circumstances beyond our control, including:

work stoppages resulting from labor disputes;

shortages of qualified trades people, such as carpenters, roofers, electricians and plumbers, especially in our key markets in the southwest U.S.;

changes in laws relating to union organizing activity;

changes in immigration laws and trends in labor force migration; and

increases in sub-contractor and professional services costs.

Any of these circumstances could give rise to delays in the start or completion of, or could increase the cost of, developing one or more of our communities and building homes. We may not be able to recover these increased costs by raising our home prices because the price for each home is typically set months prior to its delivery pursuant to sales contracts with our homebuyers. In such circumstances, our operating results could be adversely affected. Additionally, market and competitive forces may also limit our ability to raise the sales prices of our homes.

***Failure to recruit, retain and develop highly skilled, competent people at all levels, including finding suitable subcontractors, may have a material adverse effect on our standards of service.***

Key employees, including management team members, are fundamental to our ability to obtain, generate and manage opportunities. Key employees working in the homebuilding and construction industries are highly sought after. Failure to attract and retain such personnel or to ensure that their experience and knowledge are not lost when they leave the business through retirement, redundancy or otherwise may adversely affect the standards of our service and may have an adverse impact on our business, financial conditions and operating results. In addition, we do not maintain key person insurance in respect of any member of our senior management team. The loss of any of our management members or key personnel could adversely impact our business, financial condition and operating results.

The vast majority of our work carried out on site is performed by subcontractors. The difficult operating environment over the last six years in the U.S. has resulted in the failure of some subcontractors' businesses and may result in further failures. In addition, reduced levels of homebuilding in the U.S. have led to some skilled tradesmen leaving the industry to take jobs in other sectors. If subcontractors are not able to recruit sufficient numbers of skilled employees, our development and construction activities may suffer from delays and quality issues, which would also lead to reduced levels of customer satisfaction.

***Government regulations and legal challenges may delay the start or completion of our communities, increase our expenses or limit our homebuilding or other activities, which could have a negative impact on our results of operations.***

The approval of numerous governmental authorities must be obtained in connection with our development activities, and these governmental authorities often have broad discretion in exercising their approval authority. We incur substantial costs related to compliance with legal and regulatory requirements. Any increase in legal and regulatory requirements may cause us to incur substantial additional costs, or in some cases cause us to determine that the property is not feasible for development. Various local, state and federal statutes, ordinances, rules and regulations concerning building, health and safety, site and building design, environment, zoning, sales and similar matters apply to and/or affect the housing industry. We are also subject to various fees and charges of government authorities designed to defray the cost of providing certain governmental services and improvements.

Municipalities may restrict or place moratoriums on the availability of utilities, such as water and sewer taps. If municipalities in which we operate take such actions, it could have an adverse effect on our business by causing delays, increasing our costs or limiting our ability to operate in those municipalities.



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Certain states, cities and counties in which we operate have in the past approved, or approved for inclusion on their ballot, various slow growth or no growth initiatives and other ballot measures that could negatively impact the availability of land and building opportunities within those localities. These measures may reduce our ability to open new home communities and to build and sell homes in the affected markets, including with respect to land we may already own, and create additional costs and administration requirements, which in turn may harm our future sales, margins and earnings. A further expansion of these measures or the adoption of new slow-growth, no-growth or other similar programs could exacerbate such risks.

Environmental regulations can also have an adverse impact on the availability and price of certain raw materials, such as lumber.

In addition, there is a variety of new legislation being enacted, or considered for enactment at the federal, state and local level relating to energy and climate change. This legislation relates to items such as carbon dioxide emissions control and building codes that impose energy efficiency standards. New building code requirements that impose stricter energy efficiency standards could significantly increase our cost to construct homes. As climate change concerns continue to grow, legislation and regulations of this nature are expected to continue and become more costly to comply with. Similarly, energy-related initiatives affect a wide variety of companies throughout the U.S. and the world and because our operations are heavily dependent on significant amounts of raw materials, such as lumber, steel, and concrete, they could have an indirect adverse impact on our operations and profitability to the extent the manufacturers and suppliers of our materials are burdened with expensive cap and trade and similar energy related regulations.

Governmental regulation affects not only construction activities but also sales activities, mortgage lending activities and other dealings with consumers. In addition, it is possible that some form of expanded energy efficiency legislation may be passed by the U.S. Congress or federal agencies and certain state legislatures, which may, despite being phased in over time, significantly increase our costs of building homes and the sale price to our buyers, and adversely affect our sales volumes. We may be required to apply for additional approvals or modify our existing approvals because of changes in local circumstances or applicable law. Further, we may experience delays and increased expenses as a result of legal challenges to our proposed communities, whether brought by governmental authorities or private parties.

***Our Mortgage Operations business may be adversely affected by changes in governmental regulation and other risks associated with acting as a mortgage lender.***

While we intend for the loans originated by TMHF, our Mortgage Operations business, to typically be held for no more than 20 days before being sold on the secondary market, if TMHF is unable to sell loans into the secondary mortgage market or directly to large secondary market loan purchasers such as Fannie Mae and Freddie Mac, TMHF would bear the risk of being a long-term investor in these originated loans. Mortgage lending is subject to credit risks associated with the borrowers to whom the loans are extended and an increase in default rates could have a material and adverse effect on our business. Being required to hold loans on a long-term basis would also negatively affect our liquidity and could require us to use additional capital resources to finance the loans that TMHF is extending. In addition, although mortgage lenders under the mortgage warehouse facilities TMHF currently uses to finance our lending operations normally purchase our mortgages within 20 days of origination, if such mortgage lenders default under these warehouse facilities TMHF would be required to fund the mortgages then in the pipeline. In such case, amounts available under our Restated Revolving Credit Facility (as defined below) and cash from operations may not be sufficient to allow TMHF to provide financing required by our business during these times.

An obligation to commit our own funds to long-term investments in mortgage loans could, among other things, delay the time when we recognize revenues from home sales on our statements of operations. If, due to higher costs, reduced liquidity, heightened risk retention obligations and/or new operating restrictions or regulatory reforms related to or arising from compliance with new U.S. federal laws and regulations, residential consumer loan putback demands or internal or external reviews of its residential consumer mortgage loan foreclosure processes, or other factors or business decisions, TMHF could be unable to make loan products available to our homebuyers, and home sales and mortgage services results of operations may be adversely affected.

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In addition, changes in governmental regulation with respect to mortgage lenders could adversely affect the financial results of this portion of our business. Our mortgage lending operations are subject to numerous federal, state and local laws and regulations. There have been numerous changes and proposed changes in these regulations as a result of the housing downturn. For example, in July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was enacted. Among other things, this legislation provides for minimum standards for mortgages and lender practices in making mortgages, limitations on certain fees, retention of credit risk, prohibition of certain tying arrangements and remedies for borrowers in foreclosure proceedings. In January 2013, the Consumer Financial Protection Bureau proposed a number of new rules that became effective in January 2014, including but not limited to rules regarding the creation and definition of a Qualified Mortgage, rules for lender practices regarding assessing borrowers' ability to repay, and limitations on certain fees and incentive arrangements. The effects of these rules upon their adoption could affect the availability and cost of mortgage credit. Other requirements provided for by the Dodd-Frank Act have not yet been finalized or implemented. The effect of such provisions on our Mortgage Operations business will depend on the rules that are ultimately enacted. Any such changes or new enactments could adversely affect our financial condition and results of operations and the market perception of our business.

***The prices of our mortgages could be adversely affected if we lose any of our important commercial relationships.***

TMHF has longstanding relationships with members of the lender community from which its borrowers benefit. TMHF plans to continue with these relationships and use the correspondent lender platform as a part of its operational plan. If our relationship with any one or more of those banks deteriorates or if one or more of those banks decide to renegotiate or terminate existing agreements or otherwise exit the market, TMHF may be required to increase the price of our products, or modify the range of products TMHF offers, which could cause us to lose customers who may choose other providers based solely on the price or fees, which could adversely affect our financial condition and results of operations.

***We may not be able to use certain deferred tax assets, which may result in our having to pay substantial taxes.***

We have significant deferred tax assets, including net operating losses in the U.S. that could be used to offset earnings and reduce the amount of taxes we are required to pay. Our ability to use net operating losses to offset earnings is dependent on a number of factors, including applicable rules relating to the permitted carry back period for offsetting certain net operating losses against prior period earnings and the timing and amount of future taxable income.

***Raw materials and building supply shortages and price fluctuations could delay or increase the cost of home construction and adversely affect our operating results.***

The homebuilding industry has, from time to time, experienced raw material shortages and been adversely affected by volatility in global commodity prices. In particular, shortages and fluctuations in the price of concrete, drywall, lumber or other important raw materials could result in delays in the start or completion of, or increase the cost of, developing one or more of our residential communities.

In addition, the cost of petroleum products, which are used both to deliver our materials and to transport workers to our job sites, fluctuates and may be subject to increased volatility as a result of geopolitical events or accidents such as the Deepwater Horizon accident in the Gulf of Mexico. Changes in such costs could also result in higher prices for any product utilizing petrochemicals. These cost increases may have an adverse effect on our operating margin and results of operations. Furthermore, any such cost increase may adversely affect the regional economies in which we operate and reduce demand for our homes.

***The geographic concentration of our operations subjects us to an increased risk of loss of revenue or decreases in the market value of our land and homes in these regions from factors which may affect any of these regions.***

Our operations are concentrated in California, Colorado, Arizona, Texas and Florida. Some or all of these regions could be affected by:

severe weather;

natural disasters;

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shortages in the availability or increased costs in obtaining land, equipment, labor or building supplies;

changes to the population growth rates and therefore the demand for homes in these regions; and

changes in the regulatory and fiscal environment.

Due to the concentrated nature of our operations, negative factors affecting one or a number of these geographic regions at the same time could result in a relatively greater impact on our results of operations than they might have on other companies that have a more diversified portfolio of operations. The markets we operate in may also depend, to a degree, on certain sectors of the economy and any declines in those sectors may impact home sales and activities in that region. For example, to the extent the oil and gas industries, which can be very volatile, are negatively impacted by declining commodity prices, climate change, legislation or other factors, it could result in reduced employment, or other negative economic consequences, which in turn could adversely impact our home sales and activities, particularly in Texas.

***Changes to the population growth rates in certain of the markets in which we operate could affect the demand for homes in these regions.***

Slower rates of population growth or population declines in our key markets, especially as compared to the high population growth rates in prior years, could affect the demand for housing, causing home prices in these markets to fall, and adversely affect our business, financial condition and operating results.

***We participate in certain unconsolidated joint ventures where we may be adversely impacted by the failure of the unconsolidated joint venture or the other partners in the unconsolidated joint venture to fulfill their obligations.***

We have investments in and commitments to certain unconsolidated joint ventures with related and unrelated strategic partners to acquire and develop land and, in some cases, build and deliver homes. To finance these activities, our unconsolidated joint ventures often obtain loans from third-party lenders that are secured by the unconsolidated joint venture's assets. To the extent any of our joint ventures default on obligations secured by the assets of such joint venture, the assets could be forfeited to third-party lenders.

We have provided non-recourse carve-out guarantees to certain third-party lenders to our unconsolidated joint ventures (i.e. guarantees of losses suffered by the lender in the event that the borrowing entity or its equity owners engage in certain conduct, such as fraud, misappropriation of funds, unauthorized transfers of the financed property or equity interests in the borrowing entity, or the commencement of a voluntary bankruptcy case by the borrowing entity, or the borrowing entity violates environmental law, or hazardous materials are located on the property, or under other circumstances provided for in such guarantee or indemnity). In the future, we may provide other guarantees and indemnities to such lenders, including secured guarantees, in which case we may have increased liability in the event that a joint venture defaults on its obligations to a third party.

If the other partners in our unconsolidated joint ventures do not provide such cooperation or fulfill these obligations due to their financial condition, strategic business interests (which may be contrary to ours), or otherwise, we may be required to spend additional resources (including payments under the guarantees we have provided to the unconsolidated joint ventures' lenders) and suffer losses, each of which could be significant. Moreover, our ability to recoup such expenditures and losses by exercising remedies against such partners may be limited due to potential legal defenses they may have, their respective financial condition and other circumstances. Furthermore, the termination of a joint venture may also give rise to lawsuits and legal costs.

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

We use information technology and other computer resources to carry out important operational and marketing activities as well as maintain our business records, including information provided by our customers. Many of these resources are provided to us and/or maintained on our behalf by third-party service providers pursuant to agreements that specify certain security and service level standards. Our ability to conduct our business may be impaired if these resources are compromised, degraded, damaged or fail, whether due to a virus or other harmful circumstance, intentional penetration or disruption of our information technology resources by a third party, natural disaster, hardware or software corruption

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

In addition, breaches of our data security systems, including by cyber-attacks, could result in the unintended public disclosure or the misappropriation of proprietary, personal and confidential information (including confidential information about our employees, consumers who view our homes, homebuyers, mortgage loan borrowers and business partners), and require us to incur significant expense to address and resolve these kinds of issues. The release of confidential information may also lead to identity theft and related fraud, litigation or other proceedings against us by affected individuals and/or business partners and/or by regulators, and the outcome of such proceedings, which could include penalties or fines, could have a material and adverse effect on our business, financial condition and results of operations. In addition, the costs of maintaining adequate protection against such threats, as they develop in the future (or as legal requirements related to data security increase) could be material.

***We may incur a variety of costs to engage in future growth or expansion of our operations or acquisitions or disposals of businesses, and the anticipated benefits may never be realized.***

As a part of our business strategy, we may make acquisitions, or significant investments in, and/or disposals of businesses. Any future acquisitions, investments and/or disposals would be accompanied by risks such as:

difficulties in assimilating the operations and personnel of acquired companies or businesses;

diversion of our management's attention from ongoing business concerns;

our potential inability to maximize our financial and strategic position through the successful incorporation or disposition of operations;

maintenance of uniform standards, controls, procedures and policies; and

impairment of existing relationships with employees, contractors, suppliers and customers as a result of the integration of new management personnel and cost-saving initiatives.

For example, our recent disposition of Monarch requires the separation of our operations and personnel from those of Monarch, as well as our performance of the related transition services agreement. This creates additional expense and requires the allocation of management resources. We provided a customary indemnity to Monarch under the transition services agreement, which could create further expense. The disposition may result in decreased earnings, revenue or cash flow and may have a material adverse effect on our liquidity, which may materially and adversely affect our business, financial conditions and operating results. The disposition may also result in lost synergies that could negatively impact our balance sheet, income statement and cash flows.

We cannot guarantee that we will be able to successfully integrate any company or business that we might acquire in the future, and our failure to do so could harm our current business.

In addition, we may not realize the anticipated benefits of these transactions and there may be other unanticipated or unidentified effects. While we would seek protection, for example, through warranties and indemnities in the case of acquisitions, significant liabilities may not be identified in due dil