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Taylor Morrison Home Corp
Form 10-Q
November 04, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015
OR

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

For the transition period from _____ to _____
Commission File Number: 001-35873

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

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

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

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

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

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

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Non-accelerated filer Smaller Reporting Company

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

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

Class	Outstanding as of November 4, 2015
Class A common stock, \$0.00001 par value	33,158,855
Class B common stock, \$0.00001 par value	89,108,569

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TAYLOR MORRISON HOME CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and cash equivalents	\$ 158,279	\$ 234,217
Restricted cash	1,280	1,310
Real estate inventory:		
Owned inventory	3,127,510	2,511,623
Real estate not owned under option agreements	1,683	6,698
Total real estate inventory	3,129,193	2,518,321
Land deposits	35,356	34,544
Mortgage loans held for sale	104,094	191,140
Prepaid expenses and other assets, net	118,220	89,210
Other receivables, net	128,131	85,274
Investments in unconsolidated entities	126,359	110,291
Deferred tax assets, net	252,341	258,190
Property and equipment, net	5,821	5,337
Intangible assets, net	4,896	5,459
Goodwill	57,698	23,375
Assets of discontinued operations	—	576,445
Total assets	\$ 4,121,668	\$ 4,133,113
Liabilities		
Accounts payable	\$ 164,253	\$ 122,466
Accrued expenses and other liabilities	203,833	200,556
Income taxes payable	30,775	50,096
Customer deposits	101,997	70,465
Senior notes	1,250,000	1,388,840
Loans payable and other borrowings	145,589	147,516
Revolving credit facility borrowings	230,000	40,000
Mortgage warehouse borrowings	74,128	160,750
Liabilities attributable to consolidated option agreements	1,683	6,698
Liabilities of discontinued operations	—	168,565
Total liabilities	2,202,258	2,355,952
COMMITMENTS AND CONTINGENCIES (Note 17)		
Stockholders' Equity		
Class A common stock, \$0.00001 par value, 400,000,000 shares authorized, 33,158,855 and 33,060,540 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	—	—
Class B common stock, \$0.00001 par value, 200,000,000 shares authorized, 89,108,569 and 89,227,416 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	1	1

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Preferred stock, \$0.00001 par value, 50,000,000 shares authorized, no shares issued and outstanding as of September 30, 2015 and December 31, 2014	—	—
Additional paid-in capital	376,321	374,358
Retained earnings	158,330	114,948
Accumulated other comprehensive loss	(17,959	) (10,910)
Total stockholders' equity attributable to Taylor Morrison Home Corporation	516,693	478,397
Non-controlling interests – joint ventures	6,304	6,528
Non-controlling interests – Principal Equityholders	1,396,413	1,292,236
Total stockholders' equity	1,919,410	1,777,161
Total liabilities and stockholders' equity	\$4,121,668	\$4,133,113

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts, unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Home closings revenue, net	\$779,190	\$615,736	\$1,955,170	\$1,653,890
Land closings revenue	5,782	5,027	22,712	19,919
Mortgage operations revenue	11,316	8,433	28,794	22,870
Total revenues	796,288	629,196	2,006,676	1,696,679
Cost of home closings	635,935	488,250	1,594,691	1,304,595
Cost of land closings	3,919	3,938	13,152	15,759
Mortgage operations expenses	6,962	5,057	18,120	13,641
Total cost of revenues	646,816	497,245	1,625,963	1,333,995
Gross margin	149,472	131,951	380,713	362,684
Sales, commissions and other marketing costs	53,482	41,432	136,724	114,362
General and administrative expenses	25,264	19,114	70,171	57,579
Equity in loss/(income) of unconsolidated entities	120	(1,231)	(1,408)	(3,468)
Interest (income)/expense, net	(33)	345	(165)	1,127
Other expense, net	2,393	3,241	11,625	10,570
Loss on extinguishment of debt	—	—	33,317	—
Gain on foreign currency forward	—	—	(29,983)	—
Income from continuing operations before income taxes	68,246	69,050	160,432	182,514
Income tax provision	22,452	19,541	54,434	50,602
Net income from continuing operations	45,794	49,509	105,998	131,912
Discontinued operations:				
Income from discontinued operations	—	23,970	—	44,543
Transaction expenses from discontinued operations	—	—	(9,043)	—
Gain on sale of discontinued operations	—	—	80,205	—
Income tax expense from discontinued operations	—	(7,304)	(14,500)	(13,485)
Net income from discontinued operations	—	16,666	56,662	31,058
Net income before allocation to non-controlling interests	45,794	66,175	162,660	162,970
Net income attributable to non-controlling interests — joint ventures	(138)	(47)	(1,427)	(386)
Net income before non-controlling interests — Principal Equityholders	45,656	66,128	161,233	162,584
Net income from continuing operations attributable to non-controlling interests — Principal Equityholders	(33,312)	(36,122)	(76,470)	(96,308)
Net income from discontinued operations attributable to non-controlling interests — Principal Equityholders	—	(12,160)	(41,381)	(22,682)
Net income available to Taylor Morrison Home Corporation	\$12,344	\$17,846	\$43,382	\$43,594
Earnings per common share — basic:				
Income from continuing operations	\$0.37	\$0.40	\$0.85	\$1.07

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Income from discontinued operations — net of tax	\$—	\$0.14	\$0.46	\$0.26
Net income available to Taylor Morrison Home Corporation	\$0.37	\$0.54	\$1.31	\$1.33
Earnings per common share — diluted:				
Income from continuing operations	\$0.37	\$0.40	\$0.85	\$1.07
Income from discontinued operations — net of tax	\$—	\$0.14	\$0.46	\$0.26
Net income available to Taylor Morrison Home Corporation	\$0.37	\$0.54	\$1.31	\$1.33
Weighted average number of shares of common stock:				
Basic	33,122	32,956	33,088	32,896
Diluted	122,458	122,338	122,412	122,345

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Income before non-controlling interests, net of tax	\$45,794	\$66,175	\$162,660	\$162,970
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments, net of tax	(565	) (19,656	) (27,779	) (19,238
Post-retirement benefits adjustments, net of tax	—	814	1,757	(966
Other comprehensive income (loss), net of tax	(565	) (18,842	) (26,022	) (20,204
Comprehensive income	45,229	47,333	136,638	142,766
Comprehensive income attributable to non-controlling interests — joint ventures	(138	) (47	) (1,427	) (386
Comprehensive income attributable to non-controlling interests — Principal Equityholders	(32,861	) (34,534	) (98,878	) (104,246
Comprehensive income available to Taylor Morrison Home Corporation	\$12,230	\$12,752	\$36,333	\$38,134

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

	Common Stock		Additional		Retained	Accumulated	Non-controlling	Non-controlling	Total
	Class A	Class B	Paid-in							Other	Interest - Joint	Interest - Principal	Stockholders'
	Shares	Shares	Amount	Amount	Earnings	Comprehensive	Venture	Equityholders'	Equity
						Income			
						(Loss)			
Balance –									
December 31, 2014	33,060,540	\$-89,227,416	\$1	\$374,358	\$114,948	\$(10,910)	\$6,528	\$1,292,236	\$1,777,161
Net income	—	—	—	—	43,382	—	1,427	117,851	162,660
Other comprehensive loss	—	—	—	—	—	(7,049)	—	(18,973)	(26,022)
Exchange of New TMM Units and corresponding number of Class B Common Stock	87,055	—(87,055)	—	—	—	—	—	—	—
Cancellation of forfeited New TMM Units and corresponding number of Class B Common Stock	—	—(31,792)	—	—	—	—	—	—	—
Issuance of restricted stock units	11,260	—	—	—	—	—	—	—	—
Share based compensation	—	—	—	1,963	—	—	—	5,299	7,262
Distributions to non-controlling interests—joint ventures	—	—	—	—	—	—	(1,651)	—	(1,651)
Balance –									
September 30, 2015	33,158,855	\$-89,108,569	\$1	\$376,321	\$158,330	\$(17,959)	\$6,304	\$1,396,413	\$1,919,410

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

	Nine Months Ended September	
	30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income before allocation to non-controlling interests	\$ 162,660	\$ 162,970
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in income of unconsolidated entities	(1,408	) (22,497
Stock compensation expense	5,723	4,327
Loss on extinguishment of debt	33,317	—
Distributions of earnings from unconsolidated entities	1,879	21,675
Depreciation and amortization	2,927	3,958
Net income from discontinued operations	(56,662) —
Gain on foreign currency forward	(29,983) —
Contingent consideration	7,916	—
Deferred income taxes	5,849	(3,771
Changes in operating assets and liabilities:		
Real estate inventory and land deposits	(430,964	) (521,840
Mortgage loans held for sale, prepaid expenses and other assets	2,086	(48,591
Customer deposits	29,728	18,697
Accounts payable, accrued expenses and other liabilities	15,128	41,379
Income taxes payable	(19,909	) (27,316
Net cash used in operating activities	(271,713	) (371,009
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,753	) (2,746
Payments for business acquisitions	(220,899) —
Distribution from unconsolidated entities	6,857	1,753
Decrease in restricted cash	30	11,261
Investments of capital into unconsolidated entities	(23,397	) (81,494
Proceeds from sale of discontinued operations	268,853	—
Proceeds from settlement of foreign currency forward	29,983	—
Net cash provided by (used in) investing activities	59,674	(71,226
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on lines of credit related to mortgage borrowings	595,451	348,491
Repayment on lines of credit related to mortgage borrowings	(682,073	) (374,810
Proceeds from loans payable and other borrowings	33,081	32,520
Repayments of loans payable and other borrowings	(35,008	) (157,366
Borrowings on revolving credit facility	325,000	203,000
Payments on revolving credit facility	(135,000	) (53,000
Proceeds from the issuance of senior notes	350,000	350,000
Repayments on senior notes	(513,608) —
Deferred financing costs	(4,538	) (6,255
Payment of contingent consideration	(3,050) —
Distributions to non-controlling interests of consolidated joint ventures	(1,651	) (740
Net cash (used in) provided by financing activities	(71,396) 341,840
	(20,491) (7,258

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EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS

NET DECREASE IN CASH AND CASH EQUIVALENTS	\$(303,926) \$(107,653)
CASH AND CASH EQUIVALENTS — Beginning of period (1)	462,205	389,181	
CASH AND CASH EQUIVALENTS — End of period	\$158,279	\$281,528	
SUPPLEMENTAL CASH FLOW INFORMATION:			
Income taxes paid, net	\$81,664	\$94,162	
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Increase (decrease) in loans payable issued to sellers in connection with land purchase contracts	\$11,943	\$(80,864)
Accrual of contingent consideration	\$3,200	\$—	
Non-cash portion of loss on debt extinguishment	\$5,102	\$—	
Decrease in income taxes payable and related tax indemnification receivable from seller	\$—	\$167	

(1)Cash and cash equivalents shown here includes the cash related to Monarch. At December 31, 2014, cash held at Monarch was \$227,988.

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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TAYLOR MORRISON HOME CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS

Organization and Description of the Business — Taylor Morrison Home Corporation (referred to herein as “TMHC,” “we,” “our,” the “Company” and “us”), through its divisions and segments, owns and operates a residential homebuilding business and is a developer of lifestyle communities. We currently operate in Arizona, California, Colorado, Florida, Georgia, Illinois, North Carolina, and Texas. Our homes appeal to entry-level, move-up, 55+ and luxury homebuyers. The Company operates primarily under our Taylor Morrison and Darling Homes brands. Our business has 15 homebuilding operating divisions, and a mortgage operations division, which are organized into three reportable segments: East, West, and Mortgage Operations. The communities in our East and West segments offer single family attached and/or detached homes. We are the general contractors for all real estate projects and retain subcontractors for home construction and site development. Our Mortgage Operations reportable segment provides financial services to customers through our wholly owned mortgage subsidiary, Taylor Morrison Home Funding, LLC (“TMHF”).

On July 13, 2011, TMM Holdings Limited Partnership (“TMM Holdings”), an entity formed 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. (the “JH Entities” and together with the TPG Entities and Oaktree Entities, the “Principal Equityholders”), acquired (the “Acquisition”) our predecessor, Taylor Woodrow Holdings (USA), Inc., now known as Taylor Morrison Communities, Inc (“TMC”).

On April 12, 2013, TMHC completed the initial public offering (the “IPO”) of its Class A common stock, par value \$0.00001 per share (the “Class A Common Stock”). The shares of Class A Common Stock began trading on the New York Stock Exchange on April 10, 2013 under the ticker symbol “TMHC.” 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 (the “Reorganization Transactions”), TMHC became the indirect parent of TMM Holdings through the formation of TMM Holdings II Limited Partnership (“New TMM”). In the Reorganization Transactions, the TPG Entities and the Oaktree Entities each formed new holding vehicles to hold interests in New TMM (the “TPG Holding Vehicle” and the “Oaktree Holding Vehicle,” respectively). As of September 30, 2015 and December 31, 2014, the Principal Equityholders owned 72.9% of the Company.

On January 28, 2015 we closed on the sale of Monarch Corporation, our former Canadian operating segment (“Monarch”). As a result of the sale, we do not have significant continuing involvement with Monarch. See Note 4 - Discontinued Operations for further information.

On April 30, 2015, we acquired JEH Homes, an Atlanta based homebuilder, for a purchase price of approximately \$63.2 million, excluding contingent consideration. In addition, on July 21, 2015, we acquired three divisions of Orleans Homes for a purchase price of approximately \$167.3 million. See Note 2 – Summary of Significant Accounting Policies for further information regarding the assets acquired and the preliminary allocation of purchase price for both transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation — The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Consolidated Financial Statements and accompanying notes included in our 2014 Annual Report on Form 10-K. In the opinion of management, the accompanying Condensed Consolidated Financial Statements include all normal and recurring adjustments that are considered necessary for the fair presentation of our results for the interim periods presented.

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Results for interim periods are not necessarily indicative of results to be expected for a full fiscal year.

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

Discontinued Operations –As a result of our decision in December 2014 to dispose of Monarch, the operating results and financial position of the Monarch business are presented as discontinued operations for all periods presented.

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Non-controlling interests – In the Reorganization Transactions, the Company became the sole owner of the general partner of New TMM. As the general partner of New TMM, the Company exercises exclusive and complete control over New TMM. Consequently, the Company consolidates New TMM and records a non-controlling interest in the Condensed Consolidated Balance Sheets for the economic interests in New TMM, that are directly or indirectly held by the Principal Equityholders or by members of management and the Board of Directors.

Purchase Price Allocation and Related Acquisition Accounting — On April 30, 2015, we acquired JEH Homes, an Atlanta based homebuilder, for a purchase price of approximately \$63.2 million, excluding contingent consideration. On July 21, 2015, we completed the acquisition of the Charlotte, Raleigh, and Chicago divisions of Orleans Homes for a purchase price of approximately \$167.3 million, consisting of \$162.3 million of cash and \$5.0 million of seller financing. In accordance with ASC Topic 805, Business Combinations, the effects of the acquisitions were reflected on the date of the transactions in the financial statements of the acquired businesses by allocating purchase price and recording the assets at their fair values in order to reflect the purchase price paid, which resulted in goodwill for each acquisition.

For both acquisitions, we determined the fair value of real estate inventory on a community-by-community basis primarily using the sales comparison and income approaches. The sales comparison approach was used for all inventory in process. The income approach derives a value using a discounted cash flow for income-producing real property. This approach was used exclusively for finished lots. The income approach using discounted cash flows was also used to value lot option contracts acquired.

These estimated cash flows and ultimate valuation are significantly affected by the discount rate, estimates related to expected average selling prices and sales incentives, expected sales paces and cancellation rates, expected land development and construction timelines, and anticipated land development, construction, overhead costs and may vary significantly between communities.

The Company has completed a preliminary allocation of purchase price as of September 30, 2015 and expects to finalize the allocation within one year from the date of each acquisition. The following is a summary of the fair value of assets acquired, liabilities assumed, and liabilities created as of September 30, 2015 (in thousands):

	JEH Homes April 30, 2015	Orleans Homes July 21, 2015	Total
Acquisition Date			
Assets Acquired			
Real estate inventory	\$55,559	\$140,602	\$196,161
Land deposits	—	2,236	\$2,236
Prepaid expenses and other assets	1,301	2,436	\$3,737
Property and equipment	395	623	\$1,018
Goodwill	9,125	25,198	\$34,323
Total assets	66,380	171,095	237,475
Less Liabilities Assumed			
Accrued expenses and other liabilities	—	2,700	2,700
Customer deposits	—	1,081	1,081
Less contingent consideration	\$3,200	\$—	\$3,200
Net Assets Acquired	63,180	167,314	230,494

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

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

Stock Based Compensation — We account for stock-based compensation in accordance with ASC Topic 718-10, Compensation – Stock Compensation. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model. We use a Monte Carlo model for the valuation of our restricted stock grants that have a market condition. These models require the input of subjective assumptions. This guidance also requires us to estimate forfeitures in calculating the expense related to stock-based compensation.

Recently Issued Accounting Pronouncements — In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-03, Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”), which changes the presentation of debt issuance costs in financial statements. Under this ASU, such costs are presented in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs continues to be reported as interest expense. ASU 2015-03 will be effective for us in our fiscal year beginning January 1, 2016. The adoption of ASU 2015-03 is not expected to have a material effect on our condensed consolidated financial statements or disclosures.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis (“ASU 2015-02”). ASU 2015-02 amends the consolidation requirements and changes the required consolidation analysis. ASU 2015-02 requires management to reevaluate all legal entities under a revised consolidation model specifically to (i) modify the evaluation of whether limited partnership and similar legal entities are variable interest entities (“VIEs”), (ii) eliminate the presumption that a general partner should consolidate a limited partnership, (iii) affect the consolidation analysis of reporting entities that are involved with VIEs particularly those that have fee arrangements and related party relationships, and (iv) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU 2015-02 will be effective for us for our fiscal year beginning January 1, 2016. The adoption of ASU 2015-02 is not expected to have a material effect on our condensed consolidated financial statements or disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which provides guidance for revenue recognition. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in ASC Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. In doing so, companies will generally need to use more judgment and make more estimates than under today’s guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 has been deferred and will be effective beginning January 1, 2018 and, at that time, we will adopt the new standard under either the full retrospective approach or the modified retrospective approach. Early adoption is not

permitted. We are currently evaluating the method and impact the adoption of ASU 2014-09 will have on our condensed consolidated financial statements or disclosures.

3. EARNINGS PER SHARE

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

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

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	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Numerator:				
Net income available to TMHC – basic	\$12,344	\$17,846	\$43,382	\$43,594
Income from discontinued operations, net of tax	—	16,666	56,662	31,058
Income from discontinued operations, net of tax attributable to non-controlling interest – Principal Equityholders	—	(12,160)	(41,381)	(22,682)
Net income from discontinued operations – basic	\$—	\$4,506	\$15,281	\$8,376
Net income from continuing operations – basic	\$12,344	\$13,340	\$28,101	\$35,218
Net income from continuing operations – basic	\$12,344	\$13,340	\$28,101	\$35,218
Net income from continuing operations attributable to non-controlling interest – Principal Equityholders	33,312	36,122	76,470	96,308
Loss fully attributable to public holding company	5	26	234	270
Net income from continuing operations – diluted	\$45,661	\$49,488	\$104,805	\$131,796
Net income from discontinued operations – diluted	\$—	\$16,666	\$56,662	\$31,058
Denominator:				
Weighted average shares – basic (Class A)	33,122	32,956	33,088	32,896
Weighted average shares – Principal Equityholders' non-controlling interest (Class B)	89,158	89,330	89,188	89,405
Restricted stock units	178	52	136	44
Stock Options	—	—	—	—
Weighted average shares – diluted	122,458	122,338	122,412	122,345
Earnings per common share – basic:				
Income from continuing operations	\$0.37	\$0.40	\$0.85	\$1.07
Income from discontinued operations, nets of tax	\$—	\$0.14	\$0.46	\$0.26
Net income available to Taylor Morrison Home Corporation	\$0.37	\$0.54	\$1.31	\$1.33
Earnings per common share – diluted:				
Income from continuing operations	\$0.37	\$0.40	\$0.85	\$1.07
Income from discontinued operations, net of tax	\$—	\$0.14	\$0.46	\$0.26
Net income available to Taylor Morrison Home Corporation	\$0.37	\$0.54	\$1.31	\$1.33

We excluded a total weighted average of 1,531,404 and 1,543,056 stock options and restricted stock units (“RSUs”) and 1,294,149 and 1,267,665 stock options and RSUs from the calculation of earnings per share for the three and nine months ended September 30, 2015 and 2014, respectively, as their inclusion would be anti-dilutive.

The shares of Class B Common Stock have voting rights but do not have economic rights or rights to dividends or distributions on liquidation and therefore are not participating securities. Accordingly, Class B Common Stock is not included in basic earnings per share. Additionally, the income from Principal Equityholders' non-controlling interest and the related Class B Common Stock may produce a slight anti-dilutive effect on diluted earnings per common share.

4. DISCONTINUED OPERATIONS

In connection with the decision to sell Monarch in December 2014, the operating results of the Monarch business are classified as discontinued operations – net of applicable taxes in the Condensed Consolidated Statements of Operations for all periods presented, and the assets and liabilities associated with this business are classified as assets of discontinued operations and liabilities of discontinued operations, as appropriate, in the Condensed Consolidated Balance Sheets for all applicable periods presented.

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In the three and nine months ended September 30, 2015, we did not record any revenues or expenses related to the operations of Monarch. The activity recorded in 2015 consists of post-closing transaction expenses, including administrative costs, legal fees, and stock based compensation charges. The gain on sale of discontinued operations was determined using the purchase price of Monarch, less related costs and tax. In the three and nine months ended September 30, 2014 we recorded \$129.8 million and \$239.3 million, respectively, of revenues related to Monarch, which is included in discontinued operations.

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The components of assets and liabilities of discontinued operations at December 31, 2014 are as follows (in thousands):

Cash and cash equivalents	\$227,988
Restricted cash	11,474
Real estate inventory	149,087
Land deposits	7,547
Loans receivable	40,808
Tax indemnification receivable	5,194
Prepaid expenses and other assets, net	11,197
Other receivables, net	1,984
Investments in unconsolidated entities	111,887
Deferred tax assets, net	3,233
Property and equipment, net	2,546
Intangible assets, net	3,500
Total assets of discontinued operations	\$576,445
Accounts payable	\$14,438
Accrued expenses and other liabilities	44,554
Income taxes payable	8,076
Customer deposits	11,166
Loans payable and other borrowings	90,331
Total liabilities of discontinued operations	\$168,565

5. DERIVATIVE FINANCIAL INSTRUMENT

In December 2014, we entered into a derivative financial instrument in the form of a foreign currency forward. The derivative financial instrument hedged our exposure to the Canadian dollar in conjunction with the disposition of the Monarch business. The aggregate notional amount of the foreign exchange derivative financial instrument was \$471.2 million at December 31, 2014. At December 31, 2014, the fair value of the instrument was not material to our consolidated financial position or results of operations. The final settlement of the derivative financial instrument occurred on January 30, 2015 and a gain in the amount of \$30.0 million was recorded to gain on foreign currency forward in the Condensed Consolidated Statements of Operations for the nine months ended September 30, 2015.

6. REAL ESTATE INVENTORY AND LAND DEPOSITS

In accordance with the provisions of ASC Topic 360, Property, Plant, and Equipment, we review our real estate inventory for indicators of impairment on a community by community basis during each reporting period. In conducting the review for indicators of impairment, we evaluate, among other things, the margins on homes that have been delivered, margins on homes under sales contracts in backlog, projected margins with regard to future home sales over the life of the community, projected margins with regard to future land sales and the estimated fair value of the land itself. For the three and nine months ended September 30, 2015 and 2014, we recorded no impairment charges on real estate assets.

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

Inventory consists of the following (in thousands):

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	As of	
	September 30, 2015	December 31, 2014
Operating communities, including capitalized interest	\$2,924,713	\$2,217,067
Real estate held for development or held for sale	202,797	294,556
Total owned inventory	3,127,510	2,511,623
Real estate not owned under option contracts	1,683	6,698
Total real estate inventory	\$3,129,193	\$2,518,321

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

	As of September 30, 2015		December 31, 2014	
	Owned Lots	Book Value of Land and Development	Owned Lots	Book Value of Land and Development
Raw	8,642	\$ 397,590	9,825	\$ 464,882
Partially developed	8,209	551,794	8,680	654,759
Finished	12,673	1,314,693	8,727	787,033
Long-term strategic assets	3,264	14,730	3,564	27,993
Total	32,788	\$ 2,278,807	30,796	\$ 1,934,667

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

As of September 30, 2015 and December 31, 2014, we had the right to purchase 9,578 and 5,372 lots under land option purchase contracts, respectively, which represents an aggregate purchase price of \$798.1 million and \$323.5 million as of September 30, 2015 and December 31, 2014, respectively. We do not have title to the property and the creditors generally have no recourse against the Company. As of September 30, 2015 and December 31, 2014, our exposure to loss related to our option contracts with third parties and unconsolidated entities consists of non-refundable option deposits totaling \$35.4 million and \$34.5 million, respectively, in land deposits related to land options and land purchase contracts.

For the three and nine months ended September 30, 2015 and 2014, no impairment of option deposits or capitalized pre-acquisition costs were recorded. We continue to evaluate the terms of open land option and purchase contracts and may impair option deposits and capitalized pre-acquisition costs in the future.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest capitalized - beginning of period	\$ 106,470	\$ 87,227	\$ 94,880	\$ 71,263
Interest incurred	22,401	25,167	70,708	65,619
Interest amortized to cost of home closings	(21,886)	(15,227)	(58,603)	(39,715)
Interest capitalized - end of period	\$ 106,985	\$ 97,167	\$ 106,985	\$ 97,167

7. INVESTMENTS IN UNCONSOLIDATED ENTITIES

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

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

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	As of September 30, 2015	December 31, 2014
Assets:		
Real estate inventory	\$562,320	\$396,858
Other assets	102,413	59,963
Total assets	\$664,733	\$456,821
Liabilities and owners' equity:		
Debt	\$234,101	\$129,561
Other liabilities	16,500	8,870
Total liabilities	250,601	138,431
Owners' equity:		
TMHC	126,359	110,291
Others	287,773	208,099
Total owners' equity	414,132	318,390
Total liabilities and owners' equity	\$664,733	\$456,821

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues	\$2,206	\$4,805	\$19,430	\$13,468
Costs and expenses	(2,242	) (3,046	) (15,980	) (7,100
(Loss)/Income of unconsolidated entities	\$(36	) \$1,759	\$3,450	\$6,368
Company's share in (loss)/income of unconsolidated entities	\$(120	) \$1,231	\$1,408	\$3,468
Distributions of earnings from unconsolidated entities	\$442	\$998	\$8,736	\$2,749

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

8. ACCRUED EXPENSES AND OTHER LIABILITIES

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

	As of September 30, 2015	As of December 31, 2014
Real estate development costs to complete	\$15,815	\$24,222
Compensation and employee benefits	43,753	51,475
Self-insurance and warranty reserves	43,923	44,595
Interest payable	25,572	22,033
Property and sales taxes payable	16,290	12,808
Other accruals	58,480	45,423
Total accrued expenses and other liabilities	\$203,833	\$200,556

Self-Insurance and Warranty Reserves – A summary of the changes in our reserves are as follows (in thousands):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Reserve - beginning of period	\$42,589	\$40,287	\$44,595	\$34,814
Additions to reserves	5,629	6,113	13,143	13,820
Costs and claims incurred	(5,032)	(4,897)	(16,482)	(11,957)
Change in estimates to pre-existing reserves	737	(1,195)	2,667	3,631
Reserve - end of period	\$43,923	\$40,308	\$43,923	\$40,308

9. DEBT

Total debt consists of the following (in thousands):

(Dollars in thousands)	As of	
	September 30, 2015	December 31, 2014
7.75% Senior Notes due 2020, unsecured, with \$8.9 million of unamortized debt issuance costs and \$3.4 million of unamortized bond premium at December 31, 2014	\$—	\$488,840
5.25% Senior Notes due 2021, unsecured, with \$6.6 million and \$7.5 million of unamortized debt issuance costs at September 30, 2015 and December 31, 2014, respectively	550,000	550,000
5.875% Senior Notes due 2023, unsecured, with \$4.3 million of unamortized debt issuance costs at September 30, 2015	350,000	—
5.625% Senior Notes due 2024, unsecured, with \$4.5 million and \$4.9 million of unamortized debt issuance costs at September 30, 2015 and December 31, 2014, respectively	350,000	350,000
Senior Notes subtotal	\$1,250,000	\$1,388,840
Loans payable and other borrowings	145,589	147,516
\$500.0 million Revolving Credit Facility with \$5.4 million and \$5.6 million of unamortized debt issuance costs at September 30, 2015 and December 31, 2014, respectively	230,000	40,000
Mortgage warehouse borrowings	74,128	160,750
Total Senior Notes and bank financing	\$1,699,717	\$1,737,106

2020 Senior Notes

Our 7.75% Senior Notes due 2020 (the “2020 Senior Notes”) were redeemed in full on May 1, 2015 using the net proceeds from an issuance of new senior unsecured notes, the 2023 Senior Notes (as defined below), together with cash on hand. See 2023 Senior Notes and Redemption of 2020 Senior Notes below for additional information regarding the redemption of the 2020 Senior Notes.

2021 Senior Notes

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

The 2021 Senior Notes mature on April 15, 2021. The 2021 Senior Notes are guaranteed by TMM Holdings, Taylor Morrison Holdings, Inc., Taylor Morrison Communities II, Inc. and the U.S. homebuilding subsidiaries of TMC (collectively, the “Guarantors”). The 2021 Senior Notes and the guarantees are senior unsecured obligations and are not subject to registration rights. The indenture for the 2021 Senior Notes contains covenants that limit (i) the making of investments, (ii) the payment of dividends and the redemption of equity and junior debt, (iii) the incurrence of additional indebtedness, (iv) asset dispositions, (v) mergers and similar corporate transactions, (vi) the incurrence of liens, (vii) the incurrence of prohibitions on payments and asset transfers among the issuers and restricted subsidiaries and (viii) transactions with affiliates, among others. The indenture governing the 2021 Senior Notes contains

customary events of default. If we do not apply the net cash proceeds of certain asset sales within specified deadlines, we will be required to offer to repurchase the 2021 Senior Notes at par (plus accrued and unpaid interest) with such proceeds. We are also required to offer to repurchase the 2021 Senior Notes at a price equal to 101% of their aggregate principal amount (plus accrued and unpaid interest) upon certain change of control events.

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

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2023 Senior Notes and Redemption of 2020 Senior Notes

On April 16, 2015, we issued \$350.0 million aggregate principal amount of 5.875% Senior Notes due 2023 (the “2023 Senior Notes”). The 2023 Senior Notes are unsecured and are not subject to registration rights. The net proceeds of the offering, together with cash on hand, were used to redeem the entire remaining \$485.4 million aggregate principal amount of 7.75% 2020 Senior Notes on May 1, 2015, at a redemption price of 105.813% of their aggregate principal amount, plus accrued and unpaid interest thereon to, but not including, the date of redemption. As a result of the redemption of the 2020 Senior Notes, we recorded a loss on extinguishment of debt of \$33.3 million, which included the payment of the redemption premium and write-off of net unamortized deferred financing fees.

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

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

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

2024 Senior Notes

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

The 2024 Senior Notes mature on March 1, 2024. The 2024 Senior Notes are guaranteed by the same Guarantors that guarantee the 2021 Senior Notes. The 2024 Senior Notes and the guarantees are senior unsecured obligations and are not subject to registration rights. The indenture governing the 2024 Senior Notes contains covenants that limit our ability to incur debt secured by liens and enter into certain sale and leaseback transactions. The indenture governing the 2024 Senior Notes contains events of default that are similar to those contained in the indenture governing the 2021 Senior Notes. The change of control provisions in the indenture governing the 2024 Senior Notes are similar to those contained in the indenture governing the 2021 Senior Notes, but a credit rating downgrade must occur in connection with the change of control before the repurchase offer requirement is triggered for the 2024 Senior Notes.

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

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

Revolving Credit Facility

On April 24, 2015, we entered into Amendment No. 3 to the Revolving Credit Facility. Among other things, this amendment increased the amount available under the Revolving Credit Facility to \$500.0 million, extended the maturity of the Revolving Credit Facility to April 12, 2019 and reduced certain margins payable thereunder. The Revolving Credit Facility is guaranteed by the same Guarantors that guarantee the 2021 Senior Notes.

The Revolving Credit Facility contains certain “springing” financial covenants, requiring us and our subsidiaries to comply with a maximum debt to capitalization ratio of not more than 0.60 to 1.00 and a minimum consolidated tangible net worth level of at least \$1.4 billion. The financial covenants would be in effect for any fiscal quarter during which any (a) loans under the Revolving Credit Facility are outstanding during the last day of such fiscal quarter or on more than five separate days during such fiscal quarter or (b) undrawn letters of credit (except to the extent cash collateralized) issued under the Revolving Credit Facility in an aggregate amount greater than \$40.0 million or unreimbursed letters of credit issued under the Revolving Credit Facility are outstanding on the last day of such fiscal quarter or for more than five consecutive days during such fiscal quarter.

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For purposes of determining compliance with the financial covenants for any fiscal quarter, the Revolving Credit Facility provides that we may exercise an equity cure by issuing certain permitted securities for cash or otherwise recording cash contributions to our capital that will, upon the contribution of such cash to TMC, be included in the calculation of consolidated tangible net worth and consolidated total capitalization. The equity cure right is exercisable up to twice in any period of four consecutive fiscal quarters and up to five times overall. Our debt to total capitalization ratio at September 30, 2015 was 0.44 to 1.00. At September 30, 2015, our tangible net worth, as defined in the Revolving Credit Facility, was \$1.9 billion.

The Revolving Credit Facility contains certain restrictive covenants including limitations on incurrence of liens, dividends and other distributions, asset dispositions and investments in entities that are not guarantors, limitations on prepayment of subordinated indebtedness and limitations on fundamental changes. The Revolving Credit Facility contains customary events of default, subject to applicable grace periods, including for nonpayment of principal, interest or other amounts, violation of covenants (including financial covenants, subject to the exercise of an equity cure), incorrectness of representations and warranties in any material respect, cross default and cross acceleration, bankruptcy, material monetary judgments, ERISA events with material adverse effect, actual or asserted invalidity of material guarantees and change of control. As of September 30, 2015, we were in compliance with all of the covenants under the Revolving Credit Facility.

Mortgage Borrowings

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

Facility	As of September 30, 2015		Interest Rate	Expiration Date	Collateral ⁽¹⁾
	Amount Drawn	Facility Amount			
Flagstar	\$25,451	\$ 55,000	LIBOR + 2.5%	30 days written notice	Mortgage Loans
Comerica	—	50,000	LIBOR + 2.75%	November 17, 2015	Mortgage Loans
J.P. Morgan	48,677	100,000	⁽²⁾	September 26, 2016	Pledged Cash
Total	\$74,128	\$ 205,000			
Facility	As of December 31, 2014		Interest Rate	Expiration Date	Collateral ⁽¹⁾
	Amount Drawn	Facility Amount			
Flagstar	\$62,894	\$ 85,000	LIBOR + 2.5%	30 days written notice	Mortgage Loans
Comerica	11,430	50,000	LIBOR + 2.75%	August 19, 2015	Mortgage Loans
J.P. Morgan	86,426	100,000	⁽²⁾	September 28, 2015	Pledged Cash
Total	\$160,750	\$ 235,000			

The mortgage borrowings outstanding as of September 30, 2015 and December 31, 2014, are collateralized by (1) \$104.1 million and \$191.1 million, respectively, of mortgage loans held for sale, which comprise the balance of mortgage loans held for sale and \$1.3 million and \$1.3 million, respectively, of restricted short-term investments which are included in restricted cash in the accompanying Condensed Consolidated Balance Sheets.

As of December 31, 2014 and through the date of expiration of September 28, 2015, interest under the J.P. Morgan (2) agreement ranged from 2.375% plus 30-day LIBOR to 2.875% plus 30-day LIBOR or 0.25% (whichever was greater). The agreement was renewed in September 2015 setting the interest rate at 2.375% plus 30-day LIBOR.

Loans Payable and Other Borrowings

Loans payable and other borrowings as of September 30, 2015 and December 31, 2014 consist of project-level debt due to various land sellers and seller financing notes from current and prior year acquisitions. Project-level debt is generally secured by the land that was acquired and the principal payments generally coincide with corresponding

project lot sales or a principal reduction schedule. Loans payable bear interest at rates that ranged from 0% to 8% at September 30, 2015 and December 31, 2014. We impute interest for loans with no stated interest rates. The weighted average interest rate on \$110.9 million of the loans as of September 30, 2015 was 5.4% per annum, and \$34.7 million of the loans were non-interest bearing.

Table of Contents**10. FAIR VALUE DISCLOSURES**

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

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

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

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

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

Description:	Level in Fair Value Hierarchy	September 30, 2015		December 31, 2014	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Mortgage loans held for sale	2	\$ 104,094	\$ 104,094	\$ 191,140	\$ 191,140
Mortgage borrowings	2	74,128	74,128	160,750	160,750
Loans payable and other borrowings	2	145,589	145,589	147,516	147,516
7.75% Senior Notes due 2020	2	—	—	488,840	518,170
5.25% Senior Notes due 2021	2	550,000	545,875	550,000	539,000
5.875% Senior Notes due 2023	2	350,000	350,000	—	—
5.625% Senior Notes due 2024	2	350,000	336,000	350,000	336,000
Revolving Credit Facility	2	230,000	230,000	40,000	40,000
Contingent consideration liability	3	23,797	23,797	17,932	17,932

11. INCOME TAXES

The effective tax rate for the three and nine months ended September 30, 2015 and 2014 was based on the federal statutory income tax rates, affected by state income taxes, changes in deferred tax assets, changes in valuation allowances, and certain preferential treatment of deductions relating to homebuilding activities.

As of September 30, 2015, cumulative gross unrecognized tax benefits were \$7.2 million, and all unrecognized tax benefits, if recognized, would affect the effective tax rate. As of December 31, 2014, cumulative gross unrecognized tax benefits were \$2.4 million. These amounts are partially included in deferred tax assets and income taxes payable in the accompanying Condensed Consolidated Balance Sheets at September 30, 2015 and December 31, 2014. None of

the unrecognized tax benefits are expected to reverse in the next 12 months.

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

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12. STOCKHOLDERS' EQUITY

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

The components and respective voting power of our outstanding Common Stock at September 30, 2015 are as follows:

	Shares Outstanding	Percentage	
Class A Common Stock	33,158,855	27.1	%
Class B Common Stock	89,108,569	72.9	%
Total	122,267,424	100	%

13. STOCK BASED COMPENSATION

Equity-Based Compensation

In April 2013, we adopted the Taylor Morrison Home Corporation 2013 Omnibus Equity Award Plan (the "Plan"). The Plan provides for the grant of stock options, restricted stock units and other equity awards based on our common stock. As of

September 30, 2015 we had an aggregate of 5,819,833 shares of Class A Common Stock available for future grants under the Plan.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Restricted Stock Units (RSUs) ⁽¹⁾	\$964	\$335	\$2,389	\$944
Stock options	779	753	3,577	2,153
New TMM Units	384	419	1,296	1,230
Total stock compensation ⁽²⁾	\$2,127	\$1,507	\$7,262	\$4,327

⁽¹⁾ Includes compensation expense related to restricted stock units and performance based restricted stock units.

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

At September 30, 2015 and December 31, 2014, the aggregate unrecognized value of all outstanding stock-based compensation awards was approximately \$18.9 million and \$16.0 million, respectively.

Restricted Stock – The following table summarizes the restricted stock unit and performance-based restricted stock unit activity for the nine month period:

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	Shares	Weighted Average Grant Date Fair Value
Balance at December 31, 2014	185,679	\$ 24.19
Granted	445,485	18.46
Vested	(11,260	) 22.98
Forfeited	(12,614	) 22.29
Balance at September 30, 2015	607,290	\$ 20.03

During the three and nine months ended September 30, 2015, we issued non-performance RSU awards and performance-based RSU awards to certain employees of the Company. The new non-performance RSU awards vest with respect to 33.3% on the second, third and fourth anniversaries of the grant date. The performance-based RSU awards will cliff-vest based on the achievement of certain performance goals set by the Company in the year of grant over a three years performance period, subject to the employee's continued employment through the last date of the performance period and will be settled in shares of our Class A Common Stock. The number of shares underlying the performance-based RSUs that will be issued to the recipients may range from the target award amount depending on actual performance achieved as compared to the target.

Stock Options – The following table summarizes the stock option activity for the nine months ended September 30, 2015:

	Shares	Weighted Average Exercise Price Per Share
Outstanding at December 31, 2014	1,325,029	\$ 22.35
Granted	400,258	18.78
Exercised	—	—
Canceled/Forfeited	(211,397	) 24.69
Outstanding at September 30, 2015	1,513,890	\$ 21.08
Options exercisable at September 30, 2015	273,293	\$ 21.98

During the three and nine months ended September 30, 2015, we issued stock options to certain employees. These stock options granted vest 25% on the first four anniversaries of the grant date.

New TMM Units – Certain members of management and certain members of the Board of Directors were issued Class M partnership units in TMM Holdings. Those units were subject to both time and performance vesting conditions. In addition, TMM Holdings issued phantom Class M Units to certain employees who resided in Canada, which are treated as Class M Units for the purposes of this description and the financial statements. In connection with the sale of Monarch, all of the phantom Class M Units were settled pursuant to change in control provisions provided for in the award agreement. In the nine months ended September 30, 2015, we paid \$1.4 million in settlement of these awards, however there was no activity for the three months ended September 30, 2015.

Pursuant to the Reorganization Transactions, the time-vesting Class M Units in TMM Holdings were exchanged for New TMM Units with vesting terms substantially the same as the Class M Units surrendered for exchange. One New TMM Unit together with a corresponding share of Class B Common Stock is exchangeable for one share of Class A Common Stock. The shares of Class B Common Stock/New TMM Units outstanding as of September 30, 2015 were as follows:

Shares/New TMM Units	Weighted
----------------------	----------

		Average Grant Date Fair Value
Balance at December 31, 2014	1,431,721	\$5.11
Granted	—	—
Exchanges ⁽¹⁾	(87,055	) 3.88
Forfeited ⁽²⁾	(31,792	) 5.24
Balance at September 30, 2015	1,312,874	\$5.45

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

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

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From time to time, we may engage in transactions with entities or persons that are affiliated with us or one or more of the Principal Equityholders. For the three months ended September 30, 2015, there were no such transactions and for the nine months ended September 30, 2015, there were \$16.8 million in real estate inventory acquisitions from such affiliates. For the three and nine months ended September 30, 2014, there were \$9.5 million and \$40.5 million in real estate inventory acquisitions from such affiliates, respectively. Such real estate transactions with related parties are in the normal course of operations and are executed at arm's length, as they are entered into at terms comparable to those with unrelated third parties.

15. ACCUMULATED OTHER COMPREHENSIVE INCOME

The table below provides the components of accumulated other comprehensive income (loss) for the nine months ended September 30, 2015 (in thousands):

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

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

16. OPERATING AND REPORTING SEGMENTS

We have fifteen homebuilding operating divisions which are aggregated into two reportable homebuilding segments. These segments are engaged in the business of acquiring and developing land, constructing homes, marketing and selling those homes, and providing warranty and customer service. We aggregate our homebuilding operating segments into reporting segments based on similar long-term economic characteristics. We also have a mortgage and financial services segment. We have no inter-segment sales as all sales are to external customers. Our reporting segments are as follows:

East	North Florida, West Florida, Houston, which includes a Taylor Morrison division and a Darling Homes division, Dallas, Austin, Raleigh, Charlotte and Atlanta
West	Denver, Chicago, Phoenix, Bay Area, Sacramento, and Southern California
Mortgage Operations	Mortgage and Financial Services (TMHF)

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

Segment information, excluding discontinued operations, is as follows (in thousands):

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	Three Months Ended September 30, 2015				
	East	West	Mortgage Operations	Corporate and Unallocated	Total
Total revenues	\$479,025	\$305,947	\$11,316	\$—	\$796,288
Gross margin	96,991	48,127	4,354	—	149,472
Selling, general and administrative expenses	(42,462)	(19,822)	(2)	(16,460)	(78,746)
Equity in (loss)/income of unconsolidated entities	(427)	(197)	504	—	(120)
Interest and other (expense)/income	(3,938)	(108)	—	1,686	(2,360)
Income from continuing operations before income taxes	\$50,164	\$28,000	\$4,856	\$(14,774)	\$68,246

	Three Months Ended September 30, 2014				
	East	West	Mortgage Operations	Corporate and Unallocated	Total
Total revenues	\$346,065	\$274,698	\$8,433	\$—	\$629,196
Gross margin	76,975	51,600	3,376	—	131,951
Selling, general and administrative expenses	(31,375)	(17,410)	—	(11,761)	(60,546)
Equity in income/(loss) of unconsolidated entities	971	(9)	269	—	1,231
Interest and other (expense)/income	(4,102)	361	—	155	(3,586)
Income from continuing operations before income taxes	\$42,469	\$34,542	\$3,645	\$(11,606)	\$69,050

	Nine Months Ended September 30, 2015				
	East	West	Mortgage Operations	Corporate and Unallocated	Total
Total revenues	\$1,229,910	\$747,972	\$28,794	\$—	\$2,006,676
Gross margin	249,532	120,507	10,674	—	380,713
Selling, general and administrative expenses	(111,295)	(50,633)	(2)	(44,965)	(206,895)
Equity in income/(loss) of unconsolidated entities	429	(619)	1,598	—	1,408
Interest and other (expense)/income	(11,986)	421	—	105	(11,460)
Loss on extinguishment of debt	—	—	—	(33,317)	(33,317)
Gain on foreign currency forward	—	—	—	29,983	29,983
Income from continuing operations before income taxes	\$126,680	\$69,676	\$12,270	\$(48,194)	\$160,432

	Nine Months Ended September 30, 2014				
	East	West	Mortgage Operations	Corporate and	Total

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				Unallocated	
Total revenues	\$968,489	\$705,320	\$22,870	\$—	\$1,696,679
Gross margin	213,204	140,251	9,229	—	362,684
Selling, general and administrative expenses	(90,279	) (47,273	) —	(34,389	) (171,941
Equity in income of unconsolidated entities	1,842	467	1,159	—	3,468
Interest and other (expense)/income	(12,266	) 321	—	248	(11,697
Income from continuing operations before income taxes	\$112,501	\$93,766	\$10,388	\$(34,141) \$182,514

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	As of September 30, 2015					
	East	West	Mortgage Operations	Corporate and Unallocated	Total	
Real estate inventory and land deposits	\$1,660,653	\$1,503,896	\$—	\$—	\$3,164,549	
Investments in unconsolidated entities	52,708	71,867	1,784	—	126,359	
Other assets	240,367	58,441	119,537	412,415	830,760	
Total assets	\$1,953,728	\$1,634,204	\$121,321	\$412,415	\$4,121,668	

	As of December 31, 2014					
	East	West	Mortgage Operations	Corporate and Unallocated	Assets of Discontinued Operations	Total
Real estate inventory and land deposits	\$1,275,192	\$1,277,673	\$—	\$—	\$—	\$2,552,865
Investments in unconsolidated entities	57,138	51,909	1,244	—	—	110,291
Other assets	166,854	37,989	204,685	483,984	576,445	1,469,957
Total assets	\$1,499,184	\$1,367,571	\$205,929	\$483,984	\$576,445	\$4,133,113

17. COMMITMENTS AND CONTINGENCIES

Letters of Credit and Surety Bonds — We are committed, under various letters of credit and surety bonds, to perform certain development and construction activities and provide certain guarantees in the normal course of business. Outstanding letters of credit and surety bonds under these arrangements totaled \$364.7 million and \$315.6 million as of September 30, 2015 and December 31, 2014, respectively. Although significant development and construction activities have been completed related to these site improvements, the bonds are generally not released until all development and construction activities are completed. We do not believe that it is probable that any outstanding bonds as of September 30, 2015 will be drawn upon.

Legal Proceedings — We are involved in various litigation and legal claims in the normal course of our business operations, including actions brought on behalf of various classes of claimants. We are also subject to a variety of local, state, and federal laws and regulations related to land development activities, house construction standards, sales practices, mortgage lending operations, employment practices, and protection of the environment. As a result, we are subject to periodic examination or inquiry by various governmental agencies that administer these laws and regulations. We establish liabilities for legal claims and regulatory matters when such matters are both probable of occurring and any potential loss is reasonably estimable. At September 30, 2015 and December 31, 2014, our legal accruals were \$1.2 million and \$0.9 million, respectively. We accrue for such matters based on the facts and circumstances specific to each matter and revise these estimates as the matters evolve. In such cases, there may exist an exposure to loss in excess of any amounts currently accrued. In view of the inherent difficulty of predicting the outcome of these legal and regulatory matters, we generally cannot predict the ultimate resolution of the pending matters, the related timing, or the eventual loss. While the outcome of such contingencies cannot be predicted with certainty, we do not believe that the resolution of such matters will have a material adverse impact on our results of operations, financial position, or cash flows. However, to the extent the liability arising from the ultimate resolution of any matter exceeds the estimates reflected in the recorded reserves relating to such matter, we could incur additional charges that could be significant.

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

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

Forward-Looking Statements

This quarterly report includes certain forward-looking statements within the meaning of the federal securities laws regarding, among other things, our or management’s intentions, plans, beliefs, expectations or predictions of future events, which are considered forward-looking statements. You should not place undue reliance on those statements because they are subject to numerous uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. Forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These statements often include words such as “may,” “will,” “should,” “believe,” “expect,” “anticipate,” “intend,” “pl,” “estimate,” “can,” “could,” “might,” “project” or similar expressions. These statements are based upon assumptions that we have made in light of our experience in the industry, as well as our perceptions of historical trends, current conditions, expected future developments and other factors that we believe are appropriate under the circumstances. As you read this quarterly report, you should understand that these statements are not guarantees of performance or results. They involve known and unknown risks, uncertainties and assumptions, including those described under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014 (the “Annual Report”) filed with the Securities and Exchange Commission (“SEC”). Although we believe that these forward-looking statements are based upon reasonable assumptions, you should be aware that many factors, including those described under the heading “Risk Factors” in the Annual Report, could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements.

Our forward-looking statements made herein are made only as of the date of this quarterly report. We expressly disclaim any intent, obligation or undertaking to update or revise any forward-looking statements made herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based, except as required by applicable law. All subsequent written and verbal forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this quarterly report.

Business Overview

Our principal business is residential homebuilding and the development of lifestyle communities with operations geographically focused in Arizona, California, Colorado, Florida, Texas, and our newly acquired divisions in Georgia, Illinois, and North Carolina. Our homes appeal to entry-level, move-up, 55+ and luxury homebuyers, with a focus on move-up customers in high-growth markets. Our homebuilding business operates under our Taylor Morrison and Darling Homes brand names. Our business is organized into 15 homebuilding operating divisions, and a mortgage division, which are managed as three reportable segments: East, West and Mortgage Operations, as follows:

East	North Florida, West Florida, Houston, which includes a Taylor Morrison division and a Darling Homes division, Dallas, Austin, Raleigh, Charlotte and Atlanta
West	Denver, Chicago, Phoenix, Bay Area, Sacramento and Southern California
Mortgage Operations	Mortgage and Financial Services (TMHF)

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

Our Mortgage Operations reportable segment provides financial services to customers through our wholly owned mortgage subsidiary, TMHF. Revenues from loan origination are recognized at the time the related real estate

transactions are completed, usually upon the close of escrow.

On January 28, 2015, we closed the sale of Monarch Corporation, our former Canadian operating segment (“Monarch”). As a result of the sale, we do not have significant continuing involvement with Monarch, and the operating results and financial condition are presented as discontinued operations.

Non-GAAP Measures

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

Adjusted home closings gross margin

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

Recent Developments

Orleans Homes

On July 21, 2015, we completed the acquisition of three divisions of Orleans Homes for a purchase price of approximately \$167.3 million, consisting of cash and seller financing.

JEH Homes

On April 30, 2015, we acquired JEH Homes, an Atlanta based homebuilder, for a purchase price of approximately \$63.2 million, excluding contingent consideration.

Third Quarter 2015 Highlights

Key financial results as of and for the three months ended September 30, 2015, as compared to the same period in 2014, are as follows:

- ▲ Average community count increased 29% from the prior year quarter to 276 average communities
- ▲ Net sales orders increased over 18% to 1,635
- ▲ Home closings increased 28% to 1,700
- ▲ Backlog of homes under contract at the end of the quarter was 3,560 units, with a sales value of \$1.6 billion
- ▲ Cancellations as a percentage of gross sales orders were 15%, compared to 14% in the prior year quarter
- ▲ Average price of homes closed was \$458,000
- ▲ Average monthly absorption pace per community was 2.0 for the quarter
- ▲ Mortgage operations reported gross profit of \$4.4 million on revenue of \$11.3 million

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Results of Operations

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

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2015		September 30, 2015	
	2015	2014	2015	2014
Statements of Operations Data:				
Home closings revenue, net	\$ 779,190	\$ 615,736	\$ 1,955,170	\$ 1,653,890
Land closings revenue	5,782	5,027	22,712	19,919
Mortgage operations revenue	11,316	8,433	28,794	22,870
Total revenues	796,288	629,196	2,006,676	1,696,679
Cost of home closings	635,935	488,250	1,594,691	1,304,595
Cost of land closings	3,919	3,938	13,152	15,759
Mortgage operations expenses	6,962	5,057	18,120	13,641
Gross margin	149,472	131,951	380,713	362,684
Sales, commissions and other marketing costs	53,482	41,432	136,724	114,362
General and administrative expenses	25,264	19,114	70,171	57,579
Equity in loss/(income) of unconsolidated entities	120	(1,231)	(1,408)	(3,468)
Interest (income) expense, net	(33)	345	(165)	1,127
Other expense, net	2,393	3,241	11,625	10,570
Loss on extinguishment of debt	—	—	33,317	—
Gain on foreign currency forward	—	—	(29,983)	—
Income from continuing operations before income taxes	68,246	69,050	160,432	182,514
Income tax provision	22,452	19,541	54,434	50,602
Net income from continuing operations	45,794	49,509	105,998	131,912
Discontinued operations:				
Income from discontinued operations	—	23,970	—	44,543
Transaction expenses from discontinued operations	—	—	(9,043)	—
Gain on sale of discontinued operations	—	—	80,205	—
Income tax provision from discontinued operations	—	(7,304)	(14,500)	(13,485)
Net income from discontinued operations	—	16,666	56,662	31,058
Net income before allocation to non-controlling interests	45,794	66,175	162,660	162,970
Net income attributable to non-controlling interests – joint ventures	(138)	(47)	(1,427)	(386)
Net income before non-controlling interests – Principal Equityholders	45,656	66,128	161,233	162,584
Net income from continuing operations attributable to non-controlling interests – Principal Equityholders	(33,312)	(36,122)	(76,470)	(96,308)
Net income from discontinued operations attributable to non-controlling interests – Principal Equityholders	—	(12,160)	(41,381)	(22,682)
Net income available to Taylor Morrison Home Corporation	\$ 12,344	\$ 17,846	\$ 43,382	\$ 43,594

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Home closings gross margin	18.4	% 20.7	% 18.4	% 21.1	%
Adjusted home closings gross margin	21.2	% 23.2	% 21.4	% 23.5	%
Sales, commissions and other marketing costs as a percentage of home closings revenue	6.9	% 6.7	% 7.0	% 6.9	%
General and administrative expenses as a percentage of home closings revenue	3.2	% 3.1	% 3.6	% 3.5	%
Average sales price per home closed	\$458	\$463	\$461	\$450	

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Average Active Selling Communities

	Three Months Ended September 30,		Change	
	2015	2014		
East	202	159	27.0	%
West	74	55	34.5	%
Total	276	214	29.0	%
	Nine Months Ended September 30,		Change	
	2015	2014		
East	196	148	32.4	%
West	72	53	35.8	%
Total	268	201	33.3	%

Consolidated:

Average active selling communities for three and nine months ended September 30, 2015 increased by 29.0% and 33.3%, respectively, when compared to the prior year. The increase was primarily due to the acquisitions of JEH in April 2015 and three divisions of Orleans in July 2015 as well as community growth in existing divisions. We opened new communities and closed out existing communities throughout all of our legacy markets. We open communities when we believe we have the greatest probability of capitalizing on favorable market conditions in which the community is located.

Net Sales Orders

(Dollars in thousands)	Three Months Ended September 30, (1)									
	Net Sales Orders			Sales Value			Average Selling Price			
	2015	2014	Change	2015	2014	Change	2015	2014	Change	
East	1,016	938	8.3 %	\$402,606	\$385,937	4.3 %	\$396	\$411	(3.6)	%
West	619	446	38.8 %	\$306,149	\$247,642	23.6 %	\$495	\$555	(10.8)	%
Total	1,635	1,384	18.1 %	\$708,755	\$633,579	11.9 %	\$433	\$458	(5.5)	%
(Dollars in thousands)	Nine Months Ended September 30, (1)									
	Net Sales Orders			Sales Value			Average Selling Price			
	2015	2014	Change	2015	2014	Change	2015	2014	Change	
East	3,224	2,868	12.4 %	\$1,315,176	\$1,182,247	11.2 %	\$408	\$412	(1.0)	%
West	2,017	1,565	28.9 %	\$982,968	\$859,467	14.4 %	\$487	\$549	(11.3)	%
Total	5,241	4,433	18.2 %	\$2,298,144	\$2,041,714	12.6 %	\$438	\$461	(5.0)	%

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

Consolidated:

The increase in the total value and units of net sales orders in 2015 compared to 2014 for the three and nine months ended September 30, 2015, was due to an increase in our average active selling communities, and the acquisition of JEH in Atlanta and Orleans in Charlotte, Raleigh, and Chicago. The increases were also driven by consumer demand for our well-located and desirable product offerings in our legacy markets. Consumer demand increased as a result of relatively steady low interest rates and stabilizing macroeconomic conditions relative to the prior comparable period. Average selling price decreased due to a larger percentage increase in sales orders in the West, which also had a larger decrease in the average selling price due to a shift in product mix to divisions with lower sales value.

East:

Net sales orders increased in both units and in sales value in 2015 compared to 2014 for the three and nine months ended September 30, 2015 due to an increase in average active selling communities and as a result of the acquisition of JEH and Orleans. Net homes sold and total sales value increased by 8.3% and 4.3% for the three months ended September 30, 2015,

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respectively. Similarly, for the nine months ended September 30, 2015, there was an increase of net homes sold of 12.4% and total sales value of 11.2%. The average selling price of net homes sold in the East segment decreased by 3.6% and 1.0% for the three and nine months ended September 30, 2015, respectively. The decrease in average selling price for both periods was primarily driven by the Atlanta, Charlotte, and Raleigh divisions which have a lower average selling price compared to the other divisions in the segment.

West:

Net sales orders increased in both units and in sales value in 2015 compared to 2014 for the three and nine months ended September 30, 2015, due to an increase in average active selling communities. Net homes sold and total sales value increased by 38.8% and 23.6% for the three months ended September 30, 2015, respectively. For the nine months ended September 30, 2015, net sales orders and sales value increased by 28.9% and 14.4%, respectively. Our Phoenix division was a significant contributor to these increases. A shift in product mix from homes in the California divisions to the Phoenix division, where homes are more moderately priced, resulted in a decrease in average selling price for the three and nine months ended September 30, 2015.

Sales Order Cancellations

	Three Months Ended September 30,				
	Canceled Sales Orders		Cancellation Rate ⁽¹⁾		
	2015	2014	2015	2014	
East	188	115	15.6	% 10.9	%
West	107	102	14.7	% 18.6	%
Total/weighted average	295	217	15.3	% 13.6	%
	Nine Months Ended September 30,				
	Canceled Sales Orders		Cancellation Rate ⁽¹⁾		
	2015	2014	2015	2014	
East	483	371	13.0	% 11.4	%
West	279	267	12.2	% 14.6	%
Total/weighted average	762	638	12.7	% 12.6	%

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

We believe a favorable financing market, our use of prequalification criteria through TMHF and increased earnest money deposits helped us maintain a consistent cancellation rate for the nine months ended September 30, 2015, as compared to the prior year period.

Sales Order Backlog

(Dollars in thousands)	As of September 30,								
	Sold Homes in Backlog ⁽¹⁾			Sales Value			Average Selling Price		
	2015	2014	Change	2015	2014	Change	2015	2014	Change
East	2,390	2,111	13.2 %	\$1,058,329	\$978,999	8.1 %	\$443	\$464	(4.5)%
West	1,170	813	43.9 %	\$581,268	\$494,671	17.5 %	\$497	\$608	(18.3)%
Total	3,560	2,924	21.8 %	\$1,639,597	\$1,473,670	11.3 %	\$461	\$504	(8.5)%

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

Consolidated:

The increase in backlog units for both the East and the West is consistent with our increases in net homes sold and new community openings year over year. Backlog value increased in total by 11.3% as a result of backlog units increasing by 21.8%. Average selling price in the East decreased as a result of a shift in product mix to our newly acquired JEH and Orleans

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divisions which have a lower average selling price. The West experienced a decrease in average selling price due to a shift in product mix as well from the California divisions to the Denver and Phoenix divisions.

Home Closings Revenue

Three Months Ended September 30,

(Dollars in thousands)	Homes Closed			Home Closings Revenue, Net			Average Selling Price		
	2015	2014	Change	2015	2014	Change	2015	2014	Change
East	1,100	800	37.5 %	\$473,243	\$341,038	38.8 %	\$430	\$426	0.9 %
West	600	531	13.0 %	305,947	274,698	11.4 %	510	517	(1.4) %
Total	1,700	1,331	27.7 %	\$779,190	\$615,736	26.5 %	\$458	\$463	(1.1) %

Nine Months Ended September 30,

(Dollars in thousands)	Homes Closed			Home Closings Revenue, Net			Average Selling Price		
	2015	2014	Change	2015	2014	Change	2015	2014	Change
East	2,802	2,301	21.8 %	\$1,212,239	\$949,494	27.7 %	\$433	\$413	4.8 %
West	1,441	1,374	4.9 %	742,931	704,396	5.5 %	516	513	0.6 %
Total	4,243	3,675	15.5 %	\$1,955,170	\$1,653,890	18.2 %	\$461	\$450	2.4 %

East:

Home closings revenue improved as a result of the combination of increased average selling price and the acquisitions of JEH and the Orleans divisions, which contributed to an increase in homes closed. The aggregate net revenue of homes closed increased by 38.8% and 27.7% for the three and nine months ended September 30, 2015, respectively. We believe economic market improvements, as well as favorable homebuyer reception of new communities, contributed to net home closings revenue increases. In addition, average selling price increased 0.9% and 4.8% for the three and nine months ended September 30, 2015. Homes closed in our West Florida division for the three months ended September 30, 2015 increased compared to the same period in the prior year. Significant contributors of homes closed for the nine months ended September 30, 2015 included Darling Dallas, North Florida, and West Florida, driving both units and dollars higher as consumer demand for move-up and luxury products benefited our communities in these markets.

West:

During the third quarter of 2015, total homes closed units and home closings revenue increased by 13.0% and 11.4%, respectively, compared to the prior year period, which was primarily driven by increased closings in the Bay Area, Sacramento, and Denver divisions, in addition to the acquisition of our Chicago division. Average selling price of homes closed during the quarter decreased by 1.4%, driven primarily by a shift of closings from the Bay Area to more moderately priced products in the Denver and Phoenix markets.

For the nine months ended September 30, 2015, total homes closed units and home closings revenue increased by 4.9% and 5.5%, respectively, compared to the prior year period. This increase was primarily driven by increased closings in the Bay Area, Sacramento, and Denver divisions. Average sales price remained relatively flat as the product mix slowly shifts from higher priced homes in the Bay Area and Southern California to more moderately priced divisions such as Phoenix and Denver.

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Land Closings Revenue

	Three Months Ended September 30,			
(In thousands)	2015	2014	Change	
East	\$5,782	\$5,027	15.0	%
West	—	—	—	%
Total	\$5,782	\$5,027	15.0	%
	Nine Months Ended September 30,			
(In thousands)	2015	2014	Change	
East	\$17,671	\$18,994	(7.0)%
West	5,041	925	445.0	%
Total	\$22,712	\$19,919	14.0	%

Consolidated:

We generally purchase land and lots with the intent to build and sell homes. However, in some locations where we act as a developer, we occasionally purchase land that includes commercially zoned parcels or areas designated for school or government use, which we typically sell to commercial developers or municipalities. We also sell residential lots or land parcels to manage our land and lot supply on larger tracts of land on which we would otherwise not achieve financial returns that are in line with our internal expectations as well as to enhance our returns and offset our risk. Land and lot sales occur at various intervals and varying degrees of profitability. Therefore, the revenue and gross margin from land closings will fluctuate from period to period, depending on market opportunities.

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Segment Home Closings Gross Margin

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

(Dollars in thousands)	East		West		Consolidated			
	Three Months Ended September 30,				2015	2014		
	2015	2014	2015	2014	2015	2014		
Home Closings								
Home closings revenue, net	\$473,243	\$341,039	\$305,947	\$274,697	\$779,190	\$615,736		
Cost of home closings	378,110	265,154	257,825	223,096	635,935	488,250		
Home closings gross margin	95,133	75,885	48,122	51,601	143,255	127,486		
Capitalized interest amortization	12,794	6,149	9,092	9,078	21,886	15,227		
Adjusted home closings gross margin	\$107,927	\$82,034	\$57,214	\$60,679	\$165,141	\$142,713		
Home closings gross margin %	20.1	% 22.3	% 15.7	% 18.8	% 18.4	% 20.7		%
Adjusted home closings gross margin %	22.8	% 24.1	% 18.7	% 22.1	% 21.2	% 23.2		%

(Dollars in thousands)	East		West		Consolidated			
	Nine Months Ended September 30,				2015	2014		
	2015	2014	2015	2014	2015	2014		
Home Closings								
Home closings revenue, net	\$1,212,239	\$949,494	\$742,931	\$704,396	\$1,955,170	\$1,653,890		
Cost of home closings	969,946	740,392	624,745	564,203	1,594,691	1,304,595		
Home closings gross margin	242,293	209,102	118,186	140,193	360,479	349,295		
Capitalized interest amortization	35,151	15,824	23,452	23,891	58,603	39,715		
Adjusted home closings gross margin	\$277,444	\$224,926	\$141,638	\$164,084	\$419,082	\$389,010		
Home closings gross margin %	20.0	% 22.0	% 15.9	% 19.9	% 18.4	% 21.1		%
Adjusted home closings gross margin %	22.9	% 23.7	% 19.1	% 23.3	% 21.4	% 23.5		%

Consolidated:

Our consolidated adjusted home closings gross margin percentage for the three and nine months ended September 30, 2015, decreased compared to the same period in 2014. Geographic and product mix had an impact on margin rate as well as the relatively lower margin communities in certain of our recently acquired divisions. Relatively lower margins in our recently acquired divisions are influenced by the effects of purchase accounting and the local geographic markets being more moderately priced. In addition, our legacy divisions are experiencing higher land and development and construction costs as we naturally deplete our legacy land supply. Our legacy land holdings have

lower carrying costs, and as a result home closings gross margin percentage is decreasing as those legacy holdings reflect a reduced portion of our overall product mix.

East:

Home closings gross margin and adjusted home closings gross margin percentage decreased for the three and nine months ended September 30, 2015 compared to the same periods in 2014, primarily as a result of the addition of lower margin communities, product mix, and the effects of purchase accounting. Additionally, margin was negatively impacted due to labor supply constraints in most of our markets and poor weather in some of our markets during the third quarter of 2015.

West:

Home closings gross margin percentage and adjusted home closings gross margin percentage decreased for the three and nine months ended September 30, 2015 primarily due to a geographic shift in the percentage of homes closed in our Southern California division where the margin rate is lower although margin dollars are higher. In addition, a shift in product penetration

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within the West divisions, as well as commodity and labor pricing in construction costs continued to negatively affect margin rates.

Mortgage Operations

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

(Dollars in thousands)	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
	2015	2014	2015	2014	
Mortgage operations revenue	\$11,316	\$8,433	\$28,794	\$22,870	
Mortgage operations expenses	6,962	5,057	18,120	13,641	
Mortgage operations gross margin	\$4,354	\$3,376	\$10,674	\$9,229	
Mortgage operations margin %	38.5	% 40.0	% 37.1	% 40.4	%

Our Mortgage Operations segment's revenue increased due primarily to increased closings volume and average loan amounts, while operating gross margin percentage decreased period over period due to increases in underwriting costs.

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

	Closed Loans	Aggregate Loan Volume (in millions)	Capture Rate	
Three Months Ended September 30, 2015	964	\$319.8	80	%
Three Months Ended September 30, 2014	788	258.6	75	%
	Closed Loans	Aggregate Loan Volume (in millions)	Capture Rate	
Nine Months Ended September 30, 2015	2,471	\$826.8	78	%
Nine Months Ended September 30, 2014	2,141	691.2	73	%

Our mortgage capture rate represents the percentage of our homes sold to a home purchaser that utilized a mortgage, for which the borrower obtained such mortgage from TMHF or one of our preferred third party lenders. Our capture rate improved during the three and nine months ended September 30, 2015 as compared to the same periods in 2014. In the third quarter of 2015 and 2014, the average FICO score of customers who obtained mortgages through TMHF was 743 and 741, respectively. In the first nine months of 2015 and 2014, the average FICO score of customers who obtained mortgages through TMHF was 743 and 741, respectively.

Sales, Commissions and Other Marketing Costs

Sales, commissions and other marketing costs, as a percentage of home closings revenue, were relatively consistent period of over period at 6.9% and 6.7% for three months ended September 30, 2015 and 2014, respectively. For the nine months ended September 30, 2015 and 2014, sales, commissions and other marketing costs, as a percentage of home closings revenue, were also consistent at 7.0% and 6.9%.

General and Administrative Expenses

General and administrative expenses were 3.2% and 3.1% of home closings revenue for three months ended September 30, 2015 and 2014, respectively. For the nine months ended September 30, 2015 and 2014, general and administrative expenses were 3.6% and 3.5% of home closings revenue, respectively. The slight increase is primarily related to acquisition costs and costs associated with integrating our newly acquired divisions. We continue to utilize our scalable platform, providing leverage with existing infrastructure in an effort to maintain stable operating costs.

Equity in Income of Unconsolidated Entities

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Equity in income of unconsolidated entities was a loss of \$0.1 million and income of \$1.4 million for the three and nine months ended September 30, 2015, respectively, compared to income of \$1.2 million and \$3.5 million for the three and nine months ended September 30, 2014, respectively. The decrease was due to a combination of the closeout of two joint ventures in June 2014, the start-up of three new joint ventures which began during the second half 2014, as well as the incurrence of start-up costs from two new joint ventures in the second quarter of 2015.

Interest (Income)/Expense, Net

Interest expense, net represents interest incurred but not capitalized on our long-term debt and other borrowings. In the three and nine months ended September 30, 2015, compared to September 30, 2014, the change from net interest expense to net interest income was due to increased capitalization of interest as a result of higher levels of qualified assets as well as cash on deposit generating interest income.

Other Expense, Net

Other expense, net for three months ended September 30, 2015 and 2014 was \$2.4 million and \$3.2 million, respectively. For the nine months ended September 30, 2015 and 2014, other expense was \$11.6 million and \$10.6 million, respectively. The majority of the expense for both periods relate to accruals for contingent consideration. Other expense also generally consists of mothball community expense, pre-acquisition costs on unpursued land projects, captive insurance claims costs and financing fees on our Revolving Credit Facility.

Loss on Extinguishment of Debt

On May 1, 2015 we redeemed the entire outstanding aggregate principal amount of our 2020 Senior Notes at a redemption price of 105.813% of their aggregate principal amount, plus accrued and unpaid interest thereon to, but not including, the date of redemption. The redemption was made using cash on hand together with the proceeds from the issuance of our \$350 million 2023 Senior Notes, which was completed on April 16, 2015. As a result of the redemption of the 2020 Senior Notes, we recorded a loss on extinguishment of debt of \$33.3 million for the nine months ended September 30, 2015 which included the redemption premium and the write off of net unamortized deferred financing fees. We did not incur any losses on extinguishment of debt for the three and nine months ended September 30, 2014.

Gain on Foreign Currency Forward

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

Income Tax Provision

The effective income tax rate from continuing operations for both the three and nine months ended September 30, 2015 reflect certain benefits for domestic production activities. The nine months ended September 30, 2014 benefited from certain items related to a release of a portion of the valuation allowance on deferred tax assets and the U.S. repatriation of foreign funds.

Liquidity and Capital Resources

We finance our operations through the following:

- Borrowings under our Revolving Credit Facility;
- Our various series of Senior Notes;
- Project-level financing (including non-recourse loans);
- Mortgage warehouse facilities; and

Performance, payment and completion surety bonds and letters of credit.

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

Cash generated from operations;
Borrowings under our Revolving Credit Facility; and

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▲Additional offerings of senior notes, if needed.

Our principal uses of capital in the three and nine months ended September 30, 2015 and 2014 were land purchases, lot development, home construction, operating expenses, debt service payments, income taxes, investments in joint ventures, the payment of various liabilities and the acquisition of JEH Homes and three divisions of Orleans Homes. Cash flows for each of our communities depend on the status of the development cycle and can differ substantially from reported earnings. Early stages of development or expansion require significant capital expenditures for land acquisitions, plats, vertical and horizontal development, construction of model homes, general landscaping and other amenities. Because these costs are a component of our inventory and are not recognized in our statement of operations until a home closes, we incur significant operating cash outflows prior to recognition of earnings.

Depending upon future homebuilding market conditions and our expectations for these conditions, we may use a portion of our cash and cash equivalents to take advantage of land opportunities. We intend to maintain adequate liquidity and balance sheet strength, and we will continue to evaluate opportunities to access the debt market on an opportunistic basis.

Cash and Cash Equivalents

As of September 30, 2015, cash and cash equivalents consist of cash on hand, demand deposits with financial institutions and short-term, highly liquid investments. In addition, at September 30, 2015, our aggregate total cash on hand and availability under credit facilities was approximately \$395.3 million. We consider all highly liquid investments with original maturities of 90 days or less, such as certificates of deposit, money market funds, and commercial paper, to be cash equivalents. Cash accounts are insured up to \$250,000 in the United States by the Federal Deposit Insurance Corporation.

The following table summarizes our outstanding senior unsecured notes (collectively, the “Senior Notes”), as of September 30, 2015.

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

2020 Senior Notes

The 2020 Senior Notes were redeemed in full on May 1, 2015 using the net proceeds from an issuance of new 2023 senior unsecured notes, together with cash on hand. See 2023 Senior Notes and Redemption of 2020 Senior Notes below for additional information regarding the redemption of the 2020 Senior Notes.

2021 Senior Notes

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

The 2021 Senior Notes mature on April 15, 2021. The 2021 Senior Notes are guaranteed by TMM Holdings, Taylor Morrison Holdings, Inc., Taylor Morrison Communities II, Inc. and the U.S. homebuilding subsidiaries of TMC

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

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

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2023 Senior Notes and Redemption of 2020 Senior Notes

On April 16, 2015, we issued \$350.0 million aggregate principal amount of 5.875% Senior Notes due 2023 (the “2023 Senior Notes”). The 2023 Senior Notes are unsecured and are not subject to registration rights. The net proceeds of the offering, together with cash on hand, were used to redeem the entire remaining \$485.4 million aggregate principal amount of 7.75% 2020 Senior Notes on May 1, 2015, at a redemption price of 105.813% of their aggregate principal amount, plus accrued and unpaid interest thereon to, but not including, the date of redemption. As a result of the redemption of the 2020 Senior Notes, we recorded a loss on extinguishment of debt of \$33.3 million, which included the payment of the redemption premium and write off of net unamortized deferred financing fees.

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

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

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

2024 Senior Notes

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

The 2024 Senior Notes mature on March 1, 2024. The 2024 Senior Notes are guaranteed by the same Guarantors that guarantee the 2021 Senior Notes. The 2024 Senior Notes and the guarantees are senior unsecured obligations and are not subject to registration rights. The indenture governing the 2024 Senior Notes contains covenants that limit our ability to incur debt secured by liens and enter into certain sale and leaseback transactions. The indenture governing the 2024 Senior Notes contains events of default that are similar to those contained in the indenture governing the 2021 Senior Notes. The change of control provisions in the indenture governing the 2024 Senior Notes are similar to those contained in the indenture governing the 2021 Senior Notes, but a credit rating downgrade must occur in connection with the change of control before the repurchase offer requirement is triggered for the 2024 Senior Notes.

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

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

TMHC Compared to TMM Holdings

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

Revolving Credit Facility

On April 24, 2015, we entered into Amendment No. 3 to the Revolving Credit Facility. Among other things, this amendment increased the amount available under the Revolving Credit Facility to \$500.0 million, extended the maturity of the Revolving Credit Facility to April 12, 2019 and reduced certain margins payable thereunder. The Revolving Credit Facility is guaranteed by the same Guarantors that guarantee the 2021 Senior Notes.

The Revolving Credit Facility contains certain “springing” financial covenants, requiring us and our subsidiaries to comply with a maximum debt to capitalization ratio of not more than 0.60 to 1.00 and a minimum consolidated tangible net worth level

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of at least \$1.4 billion. The financial covenants would be in effect for any fiscal quarter during which any (a) loans under the Revolving Credit Facility are outstanding during the last day of such fiscal quarter or on more than five separate days during such fiscal quarter or (b) undrawn letters of credit (except to the extent cash collateralized) issued under the Revolving Credit Facility in an aggregate amount greater than \$40.0 million or unreimbursed letters of credit issued under the Revolving Credit Facility are outstanding on the last day of such fiscal quarter or for more than five consecutive days during such fiscal quarter. For purposes of determining compliance with the financial covenants for any fiscal quarter, the Revolving Credit Facility provides that we may exercise an equity cure by issuing certain permitted securities for cash or otherwise recording cash contributions to our capital that will, upon the contribution of such cash to TMC, be included in the calculation of consolidated tangible net worth and consolidated total capitalization. The equity cure right is exercisable up to twice in any period of four consecutive fiscal quarters and up to five times overall. Our debt to total capitalization ratio at September 30, 2015 was 0.44 to 1.00. At September 30, 2015, the Borrower's tangible net worth, as defined in the Revolving Credit Facility, was \$1.9 billion.

The Revolving Credit Facility contains certain restrictive covenants including limitations on incurrence of liens, dividends and other distributions, asset dispositions and investments in entities that are not guarantors, limitations on prepayment of subordinated indebtedness and limitations on fundamental changes. The Revolving Credit Facility contains customary events of default, subject to applicable grace periods, including for nonpayment of principal, interest or other amounts, violation of covenants (including financial covenants, subject to the exercise of an equity cure), incorrectness of representations and warranties in any material respect, cross default and cross acceleration, bankruptcy, material monetary judgments, ERISA events with material adverse effect, actual or asserted invalidity of material guarantees and change of control. As of September 30, 2015, we were in compliance with all of the covenants under the Revolving Credit Facility.

Mortgage Company Loan Facilities

The following table summarizes the terms of our TMHF warehouse facilities:

Facility	As of September 30, 2015		Interest Rate	Expiration Date	Collateral ⁽¹⁾
	Amount Drawn	Facility Amount			
Flagstar	\$25,451	\$ 55,000	LIBOR + 2.5%	30 days written notice	Mortgage Loans
Comerica	—	50,000	LIBOR + 2.75%	November 17, 2015 ⁽³⁾	Mortgage Loans
J.P. Morgan	48,677	100,000	⁽²⁾	September 26, 2016	Pledged Cash
Total	\$74,128	\$ 205,000			

(1) The mortgage borrowings outstanding as of September 30, 2015 and December 31, 2014, are collateralized by \$104.1 million and \$191.1 million, respectively, of mortgage loans held for sale, which comprise the balance of mortgage loans held for sale and \$1.3 million and \$1.3 million, respectively, of restricted short-term investments which are included in restricted cash in the accompanying Condensed Consolidated Balance Sheets.

(2) As of December 31, 2014 and through the date of expiration of September 28, 2015, interest under the J.P. Morgan agreement ranged from 2.375% plus 30-day LIBOR to 2.875% plus 30-day LIBOR or 0.25% (whichever was greater). The agreement was renewed in September 2015 setting the interest rate at 2.375% plus 30-day LIBOR.

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

Loans Payable and Other Borrowings

Loans payable and other borrowings as of September 30, 2015 consist of project-level debt due to various land sellers and seller financing notes from current and prior year acquisitions. Project-level debt is generally secured by the land

that was acquired and the principal payments generally coincide with corresponding project lot sales or a principal reduction schedule. Loans payable bear interest at rates that ranged from 0% to 8% at September 30, 2015 and December 31, 2014. We impute interest for loans with no stated interest rates. The weighted average interest rate on \$110.9 million of the loans as of September 30, 2015 was 5.4% per annum, and \$34.7 million of the loans were non-interest bearing.

Letters of Credit, Surety Bonds and Financial Guarantees

In the course of land development and acquisition, we have issued letters of credit under our Revolving Credit Facility to various land sellers and municipalities in the amounts below as of the dates indicated:

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(In thousands)	As of		December 31, 2014	
	September 30, 2015		Available	Issued
Revolving Credit Facility–Letters of Credit	\$200,000	\$32,960	\$200,000	\$35,071

Operating Cash Flow Activities

Our net cash used in operating activities was \$271.7 million for the nine months ended September 30, 2015 compared to \$371.0 million for the nine months ended September 30, 2014. The primary drivers of the change year over year include a smaller decrease in real estate inventory and land deposits, and a decrease in mortgage loans held for sale. Also, contributing to the change was the \$33.3 million loss on extinguishment of debt which was offset by an approximately \$30.0 million gain on a foreign currency forward and a decrease in investments of capital into unconsolidated entities year over year.

Investing Cash Flow Activities

Net cash provided by investing activities was \$59.7 million for the nine months ended September 30, 2015, as compared to cash used in investing activities of \$71.2 million for the nine months ended September 30, 2014. The increase in cash provided by investing activities was primarily the result of our Monarch disposition in the first quarter of 2015, and cash received from a foreign currency forward. This increase was partially offset by the acquisitions of JEH and three divisions of Orleans Homes.

Financing Cash Flow Activities

Net cash used in financing activities was \$71.4 million for the nine months ended September 30, 2015, compared to \$341.8 million of net cash provided by financing activities for the nine months ended September 30, 2014. The change in net cash from financing activities year over year was primarily attributable to an increase in net repayments on our lines of credit related to mortgage borrowings and the redemption of the 2020 Senior Notes, partially offset by increased net borrowings on our Revolving Credit Facility.

Commercial Commitments and Off-Balance Sheet Arrangements

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

(In thousands)	As of	
	September 30, 2015	December 31, 2014
Letters of credit	\$32,960	\$35,071
Surety bonds	\$331,692	\$280,559
Total outstanding letters of credit and surety bonds	\$364,652	\$315,630

Investments in Land Development and Homebuilding Joint Ventures or Unconsolidated Entities

We participate in strategic land development and homebuilding joint ventures with related and unrelated third parties. The use of these entities, in some instances, enables us to acquire land to which we could not otherwise obtain access, or could not obtain access on terms that are favorable. Our partners in these joint ventures historically have been land owners/developers, other homebuilders and financial or strategic partners. Joint ventures with land owners/developers have given us access to sites owned or controlled by our partners. Joint ventures with other homebuilders have provided us with the ability to bid jointly with our partners for large or expensive land parcels. Joint ventures with financial partners have allowed us to combine our homebuilding expertise with access to our partners' capital. Joint ventures with strategic partners have allowed us to combine our homebuilding expertise with the specific expertise (e.g. commercial or infill experience) of our partners.

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

For the nine months ended September 30, 2015, total net capital contributed to unconsolidated joint ventures was \$23.4 million.

Land Purchase and Land Option Contracts

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We enter into land purchase and option contracts to procure land or lots for the construction of homes in the ordinary course of business. Lot option contracts enable us to control significant lot positions with a minimal capital investment and substantially reduce the risks associated with land ownership and development. As of September 30, 2015, we had outstanding land purchase and lot option contracts of \$798.1 million. We are obligated to close the transaction under our land purchase contracts. However, our obligations with respect to the option contracts are generally limited to the forfeiture of the related non-refundable cash deposits and/or letters of credit provided to obtain the options.

Seasonality

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

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

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

Inflation

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

Critical Accounting Policies

There have been no significant changes to our critical accounting policies during the three or nine months ended September 30, 2015 as compared to those we disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2014.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our operations are interest rate sensitive. We monitor our exposure to changes in interest rates and incur both fixed rate and variable rate debt. At September 30, 2015, approximately 82.1% of our debt was fixed rate and 17.9% was variable rate. None of our market sensitive instruments were entered into for trading purposes. For fixed rate debt,

changes in interest rates generally affect the fair value of the debt instrument, but not our earnings or cash flows. Conversely, for variable rate debt, changes in interest rates generally do not impact the fair value of the debt instrument but may affect our future earnings and cash flows, and may also impact our variable rate borrowing costs, which principally relate to any borrowings under our Revolving Credit Facility and to any borrowings by TMHF under its various warehouse facilities. As of September 30, 2015,

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we had \$230.0 million outstanding borrowings under our Revolving Credit Facility. We had \$237.0 million of additional availability for borrowings and \$167.0 million of additional availability for letters of credit (giving effect to \$33.0 million of letters of credit outstanding as of such date). Our fixed rate debt is subject to a requirement that we offer to purchase the 2021 Senior Notes at par with certain proceeds of asset sales (to the extent not applied in accordance with the indenture governing such Senior Notes). We are also required to offer to purchase all of the outstanding Senior Notes at 101% of their aggregate principal amount upon the occurrence of specified change of control events. Other than in those circumstances, we do not have an obligation to prepay fixed rate debt prior to maturity and, as a result, interest rate risk and changes in fair value would not be expected to have a significant impact on our cash flows related to our fixed rate debt until such time as we are required to refinance, repurchase or repay such debt.

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

The following table sets forth principal cash flows by scheduled maturity and effective weighted average interest rates and estimated fair value of our debt obligations as of September 30, 2015. The interest rate for our variable rate debt represents the interest rate on our borrowings under our Revolving Credit Facility and mortgage warehouse facilities. Because the mortgage warehouse facilities are effectively secured by certain mortgage loans held for sale which are typically sold within 20 days, its outstanding balance is included as a variable rate maturity in the most current period presented.

(In millions, except percentage data)	Expected Maturity Date						Total	Fair Value
	2015	2016	2017	2018	2019	Thereafter		
Fixed Rate Debt	\$31.4	\$55.7	\$25.9	\$14.4	\$11.5	\$1,256.7	\$1,395.6	\$1,377.5
Average interest rate ⁽¹⁾	4.1	% 4.1	% 4.1	% 4.1	% 4.1	% 5.5	% 5.4	%
Variable Rate Debt ⁽²⁾	\$304.1	\$—	\$—	\$—	\$—	\$—	\$304.1	\$304.1
Average interest rate	2.3	% —	—	—	—	—	2.3	%

⁽¹⁾ Represents the coupon rate of interest on the full principal amount of the debt.

Based upon the amount of variable rate debt at September 30, 2015, and holding the variable rate debt balance

⁽²⁾ constant, each 1% increase in interest rates would increase the interest incurred by us by approximately \$3.0 million per year.

Currency Exchange Risk

In December 2014, we entered into a derivative financial instrument in the form of a foreign currency forward. The derivative financial instrument hedged our exposure to the Canadian dollar in conjunction with the disposition of the Monarch business. The aggregate notional amount of the foreign exchange derivative financial instrument was \$471.2 million at December 31, 2014. At December 31, 2014 the fair value of the instrument was not material to our consolidated financial position or results of operations. The final settlement of the derivative financial instrument occurred on January 30, 2015 and a gain in the amount of \$30.0 million was recorded in foreign currency forward in the accompanying Condensed Consolidated Statements of Operations for the nine months ended September 30, 2015.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) as of September 30, 2015. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures, as of the end of the period covered by this Quarterly Report on Form 10-Q, were effective to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative

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to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error and mistake.

Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of controls.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Changes in Internal Controls

No change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the quarter ended September 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes to the Risk Factors set forth in Part 1, Item 1A. of our 2014 Annual Report on Form 10-K. These Risk Factors may materially affect our business, financial condition or results of operations. You should carefully consider the Risk Factors set forth in our 2014 Annual Report on Form 10-K and the other information set forth elsewhere in this quarterly report. You should be aware that these Risk Factors and other information may not describe every risk facing our Company.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation (included as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on April 15, 2013, and incorporated herein by reference).
3.2	Amended and Restated By-laws (included as Exhibit 3.2 to the Company's Current Report on Form 8-K, filed on April 15, 2013, and incorporated herein by reference).

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Exhibit No.	Description
31.1*	Certification of Sheryl D. Palmer, Chief Executive Officer, pursuant to Section 302 of the Sarbanes–Oxley Act of 2002.
31.2*	Certification of C. David Cone, Chief Financial Officer, pursuant to Section 302 of the Sarbanes–Oxley Act of 2002.
32.1*	Certification of Sheryl D. Palmer, Chief Executive Officer, pursuant to Section 906 of the Sarbanes–Oxley Act of 2002.
32.2*	Certification of C. David Cone, Chief Financial Officer, pursuant to Section 906 of the Sarbanes–Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith

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SIGNATURES

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

DATE: November 4, 2015

TAYLOR MORRISON HOME CORPORATION
Registrant

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

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

/s/ Joseph Terracciano
Joseph Terracciano
Chief Accounting Officer
(Principal Accounting Officer)

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