

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

Taylor Morrison Home Corp  
Form 10-K  
February 21, 2018  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2017

or

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

For the transition period from                      to                      .  
Commission File No. 001-35873

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

Delaware                      90-0907433  
(State or other jurisdiction of      (I.R.S. Employer  
incorporation or organization) Identification No.)  
4900 N. Scottsdale Road, Suite 2000, Scottsdale, Arizona 85251  
(Address of principal executive offices) (Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Class A Common Stock, \$0.00001 par value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

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

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

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

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

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

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

Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

(Do not check if smaller reporting company.)

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant on June 30, 2017 was \$1,702,454,297, based on the closing sales price per share as reported by the New York Stock Exchange on such date.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of February 21, 2018 :

Class	Outstanding
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Class A Common Stock, \$0.00001 par value	111,232,162
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Class B Common Stock, \$0.00001 par value	883,921
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Documents Incorporated by Reference

Portions of Part III of this Form 10-K are incorporated by reference from the Registrant's definitive proxy statement for its 2018 annual meeting of shareholders to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant's fiscal year.

Table of Contents

TAYLOR MORRISON HOME CORPORATION  
FORM 10-K  
FOR THE YEAR ENDED DECEMBER 31, 2017

TABLE OF CONTENTS

	Page Number
<u>PART I</u>	
<u>Item 1. Business</u>	<u>2</u>
<u>Item 1A. Risk Factors</u>	<u>11</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>29</u>
<u>Item 2. Properties</u>	<u>29</u>
<u>Item 3. Legal Proceedings</u>	<u>29</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>29</u>
<u>PART II</u>	
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>30</u>
<u>Item 6. Selected Financial Data</u>	<u>31</u>
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>33</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>56</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>57</u>
<u>Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	<u>101</u>
<u>Item 9A. Controls and Procedures</u>	<u>101</u>
<u>Item 9B. Other Information</u>	<u>102</u>
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>103</u>
<u>Item 11. Executive Compensation</u>	<u>103</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>103</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>103</u>
<u>Item 14. Principal Accounting Fees and Services</u>	<u>103</u>
<u>PART IV</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>104</u>
<u>Item 16. Form 10-K Summary</u>	<u>107</u>
<u>Signatures</u>	<u>107</u>

## Table of Contents

### Available Information

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

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

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

### Forward-Looking Statements

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

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



## Table of Contents

### PART I

#### ITEM 1. BUSINESS

##### General Overview

We are one of the largest public homebuilders in the United States. We are also a land developer, with a portfolio of lifestyle and master-planned communities. We provide a diverse assortment of homes across a wide range of price points. We strive to appeal to a broad spectrum of customers in traditionally high growth markets, where we design, build and sell single-family detached and attached homes. We operate under the Taylor Morrison and Darling Homes brand names. We also provide financial services to customers through our wholly owned mortgage subsidiary, Taylor Morrison Home Funding, LLC (“TMHF”) and title insurance and closing settlement services through our title company, Inspired Title Services, LLC (“Inspired Title”).

We have operations in Arizona, California, Colorado, Florida, Georgia, Illinois, North Carolina and Texas. Our business is organized into multiple homebuilding operating components and a mortgage and title services component, which are managed as multiple reportable segments, as follows:

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

Over the last several years we have grown organically and through various builder acquisitions, including our acquisition in April 2015 of JEH Homes, an Atlanta based homebuilder; our acquisition in July 2015 of three divisions of Orleans Homes in new markets within Charlotte, Chicago and Raleigh; and our acquisition in January 2016 of Acadia Homes in Atlanta. Each of these acquisitions represents our strategic approach in expanding our geographic footprint in new, high-growth markets.

##### Organizational Structure

As a result of the completion of our initial public offering (“IPO”) April 12, 2013 and a series of transactions pursuant to a Reorganization Agreement dated as of April 9, 2013, TMHC formed and became the owner and general partner of New TMM. New TMM was formed by a consortium of investors comprised of affiliates of TPG Global, LLC (the “TPG Entities” or “TPG”), investment funds managed by Oaktree Capital Management, L.P. (“Oaktree”) or their respective subsidiaries (together, the “Oaktree Entities”), and affiliates of JH Investments, Inc. (“JH” and together with the TPG Entities and Oaktree Entities, the “Principal Equityholders”).

Since January 2017, we have completed seven public offerings for an aggregate of 80.2 million shares of our Class A Common Stock, using all of the net proceeds therefrom to repurchase our Principal Equityholders' indirect interest in TMHC. In January 2018, we also purchased an additional 7.6 million shares of our Class B Common Stock from our Principal Equityholders. As a result of the series of offerings and repurchases, the Principal Equityholders ownership decreased to 31.1% at December 31, 2017 and to zero by January 31, 2018.

##### 2017 Highlights and Recent Developments

Our financial and operational highlights for the year ended December 31, 2017 and recent developments subsequent to the year end are summarized below:

Financial

We generated \$3.9 billion in total revenue and \$3.8 billion in home closings revenue for the year ended December 31, 2017, an increase of 11% compared to the prior year's home closings revenue.

Net income from continuing operations and diluted earnings per share for the year ended December 31, 2017 was \$176.7 million and \$1.47 compared to \$206.6 million and \$1.69 for the year ended December 31, 2016.

## Table of Contents

Adjusting for the effects of the Tax Cuts and Jobs Act (“Tax Act”), enacted on December 22, 2017, net income from continuing operations for the year ended December 31, 2017 was \$237.6 million or 15.0% higher than the prior year. Similarly, diluted earnings per share adjusted for tax reform effects in 2017 was \$1.98 compared to \$1.69 for the year ended December 31, 2016. See Note 13 - Income taxes for discussion regarding Tax Act effects.

As a result of the Tax Act, we have recorded a non-cash provisional income tax expense of \$57.4 million to account for the revaluation of our existing deferred tax assets due to the lower tax rate and we have recorded an estimated \$3.6 million charge which may be payable over eight years related to the mandatory deemed repatriation of foreign earnings related to the sale of our Canadian operations in 2015.

On January 26, 2018 we amended the maturity date of our \$500 million Revolving Credit Facility from April 2019 to January 2022 allowing incremental financial flexibility.

As of December 31, 2017, our total liquidity was \$1.0 billion, including \$573.9 million in cash.

As of December 31, 2017 our net homebuilding debt to capitalization ratio of 25.8%.

### Operational

During 2017, our operations were located in eight states with 297 average active communities.

We sold and closed nearly 12.0% and 9.0%, respectively, more homes during 2017 compared to 2016.

Sales pace for the year ended December 31, 2017 was 2.4 compared to 2.0 for the year ended December 31, 2016.

Average sales price of homes closed was \$473,000 for the year ended December 31, 2017.

We ended 2017 with \$1.7 billion in sales order backlog.

At December 31, 2017 we owned and controlled approximately 38,000 lots.

For the last three consecutive years, we were awarded America’s Most Trusted Home Builder® by Lifestory Research.

We were recognized and awarded as one of the Best Places to Work by Glassdoor.

### Business Strategy

Our long-term strategy is built on four pillars:

- pursuing core locations;
- building distinctive communities;
- maintaining a cost-efficient culture; and
- appropriately balancing price with pace in the sale of our homes.

We are committed to building authentic homes and communities that inspire and enhance the lives of our customers. Delivering on this involves thoughtful design and research to accommodate the needs of our various customers and the surrounding community. The Taylor Morrison difference begins by providing our customers with homes that are both conducive to their lifestyles and built to last, prioritizing our commitment for the long-term satisfaction of our homeowners. Our communities are generally “lifestyle” communities in core locations, which have various distinguishing attributes, including proximity to job centers, attractive school systems and a variety of local amenities in well-regarded submarkets.

Our dedication to service defines our customer experience and acknowledges homeowners’ suggestions to incorporate style, quality and sustainability into every community we develop. We offer a range of award-winning and innovative designs with a number of features such as single-story, ranch style living, split bedroom plans and first floor master bedroom suites to appeal to diverse buyer needs. We engage unaffiliated architectural firms and internal architectural resources to develop and augment existing plans in order to ensure that our homes reflect current and local consumer tastes. We engineer our homes for energy-efficiency and cost savings to reduce the impact on the environment. We serve all segments and generational groups through our quality products which attract entry-level, move-up, luxury and active adult buyers.



We acquire our land assets in core locations, focusing on the preferences of our buyers, building desirable communities, continually evaluating and analyzing overhead efficiency and optimizing profit by managing volume. In addition, we seek to maximize long-term shareholder value and operate our business to capitalize on market appreciation and mitigate risks from economic downturns as we recognize the cyclical nature of the housing market and home price volatility. We regularly assess our capital allocation strategy to drive shareholder return. We also take advantage of joint venture opportunities as they arise in order to secure prime assets, share risk and maximize returns.

We believe our extensive land position and pipeline have positioned us for strategic growth and increased profitability in an improving housing market. We execute this strategy by:

## Table of Contents

- Maximizing our existing land supply through enhanced product offerings;
- Combining land acquisition and development expertise with homebuilding operations;
- Focusing product offerings on specific customer groups;
- Building aspirational homes for our customers and delivering superior customer service;
- Maintaining an efficient capital structure;
- Selectively pursuing acquisitions; and
- Employing and retaining a highly experienced management team with a strong operating track record.

## Land and Development Strategies

Community development includes the acquisition and development of communities, which may include obtaining significant planning and entitlement approvals and completing construction of off-site and on-site utilities and infrastructure. We generally operate as community developers, but in some communities we operate solely as merchant builders, in which case, we acquire fully planned and entitled lots and may construct on-site improvements.

In order to maximize our expected risk-adjusted return, the allocation of capital for land investment is performed at the corporate level with a disciplined approach to overall portfolio management. Our portfolio investment committee of senior executives meets on a regular basis. Annually, our operating divisions prepare a strategic plan for their respective geographies. Macro and micro indices, including but not limited to employment, housing starts, new home sales, re-sales and foreclosures, along with market related shifts in competition, land availability and consumer preferences, are carefully analyzed to determine our land and homebuilding strategy. Supply and demand are analyzed on a consumer segment and submarket basis to ensure land investment is targeted appropriately. Our long-term plan is compared on an ongoing basis to current conditions in the marketplace as they evolve and is adjusted to the extent necessary. Major development strategy decisions regarding community positioning are included in the decision making and underwriting process and are made in consultation with senior executives of our management team. Our land portfolio as of December 31, 2017 and 2016 is summarized below:

As of December 31, 2017

	Owned Lots				Long-Term Strategic Assets	Controlled Lots	Owned and Controlled Lots
	Raw	Partially Developed	Finished	Total			
East	5,365	2,600	4,987	—	12,952	5,820	18,772
Central	2,140	1,237	3,748	—	7,125	4,602	11,727
West	198	1,974	2,909	763	5,844	1,469	7,313
Total	7,703	5,811	11,644	763	25,921	11,891	37,812

As of December 31, 2016

	Owned Lots				Long-Term Strategic Assets	Controlled Lots	Owned and Controlled Lots
	Raw	Partially Developed	Finished	Total			
East	3,319	5,707	4,296	293	13,615	5,164	18,779
Central	3,278	1,371	3,710	—	8,359	4,170	12,529

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West	545	959	3,312	1,196	6,012	985	6,997
Total	7,142	8,037	11,318	1,489	27,986	10,319	38,305

Raw land represents property that has not been developed and remains in its natural state. Partially developed represents land where the grading and horizontal development process has begun. Finished lots represent those lots which we have purchased

## Table of Contents

from third parties in addition to lots for which we have completed the horizontal development and are ready for the vertical or homebuilding construction. Long-term strategic assets are those lots where we are currently not performing any development.

In the land purchasing and/or joint venture configuration process, specific projects of interest are typically identified by the local divisional teams, including proposed ownership structure, environmental concerns, anticipated product segmentation, competitive environment and financial returns, and they are presented to our portfolio investment committee for review. Certain portfolio opportunities will often be sourced centrally and managed at the corporate level. We also determine whether continued spending on currently owned and controlled land is a well-timed and appropriate use of capital. Our portfolio investment strategy emphasizes expected profitability to reflect the risk and timing of returns, and the level of sales volume in new and existing markets.

The following is a summary of the status of our land positions:

(Dollars in thousands)	As of December 31, 2017		As of December 31, 2016	
	Owned	Book Value of Land and Development	Owned	Book Value of Land and Development
Development Status				
Raw land	7,703	\$ 338,642	7,142	\$ 403,902
Partially developed	5,811	543,200	8,037	501,496
Finished lots	11,644	1,314,243	11,318	1,336,709
Long-term strategic assets	763	10,730	1,489	16,182
Total	25,921	\$ 2,206,815	27,986	\$ 2,258,289

As of December 31, 2017 and 2016, the allocation of lots held in our land portfolio, by year acquired, is as follows:

Allocation of Lots in Land Portfolio, by Year Acquired	As of December 31, 2017		As of December 31, 2016	
Acquired in 2017	23	%	—	%
Acquired in 2016	15	%	17	%
Acquired in 2015	13	%	20	%
Acquired in 2014 and earlier	49	%	63	%
Total	100	%	100	%

## Homes in Inventory

We manage our inventory of homes under construction by selectively commencing construction to capture new home demand, while monitoring the number and aging of unsold homes.

## Table of Contents

The following is a summary of our homes in inventory by homebuilding reporting segment as of December 31, 2017 and December 31, 2016:

	As of December 31, 2017				As of December 31, 2016			
	Homes in Backlog	Models	Inventory to be Sold	Total	Homes in Backlog	Models	Inventory to be Sold	Total
East	1,513	129	603	2,245	1,220	144	447	1,811
Central	1,051	142	439	1,632	958	140	390	1,488
West	932	119	391	1,442	953	128	349	1,430
Total	3,496	390	1,433	5,319	3,131	412	1,186	4,729

We expect that during 2018 we will deliver substantially all homes in backlog at December 31, 2017. At December 31, 2017, inventory units to be sold included 222 completed units available for sale. On average at December 31, 2017, we had 4.8 inventory units per average active selling community and 0.75 completed inventory units per average active selling community to be sold. At December 31, 2016, inventory units to be sold included 238 completed units available for sale. On average at December 31, 2016, we had 3.8 inventory units per average active selling community and 0.77 completed inventory units per average active selling community.

## Community Development

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

Each community has employees who perform superintendent, sales and customer service functions, in conjunction with a local management team to manage the overall project.

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

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

## Sources and Availability of Raw Materials

Based on local market practices, we either directly, or indirectly through our subcontractors, purchase drywall, cement, steel, lumber, insulation and the other building materials necessary to construct a home. While these materials are generally widely available from a variety of sources, from time to time we experience material shortages on a localized basis which can substantially increase the price for such materials and our construction process can be slowed. We generally have multiple sources for the materials we purchase and have not experienced significant delays due to unavailability of necessary materials.

## Trades and Labor

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

## Table of Contents

### Procurement and Construction

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

The regional and national vendor programs currently involve over 50 vendors and include highly reputable and well-established companies who supply us with lumber, appliances, HVAC systems, insulation, roofing, paint and lighting, among other materials. Through these relationships, we are able to realize savings on the costs of essential materials. Contracts are typically structured to include a blend of attractive upfront pricing and rebates and, in some cases, advantageous retroactive pricing in instances of contract renewals. In addition to cost advantages, these arrangements also help minimize the risk of construction delays during supply shortages, as we are often able to leverage our size to obtain our full allocation of required materials.

### Warranty Program

Most of our divisions currently offer a limited warranty to cover various defects in workmanship or materials, including structural defects. Certain of our divisions provide longer term structural warranties through third-party warranty providers. We also currently provide third-party warranty coverage on homes where required by Federal Housing Administration (“FHA”) or Veterans Administration regulations. We evaluate our warranty offerings from time-to-time and, in the future, may offer the third-party longer term structural warranty in additional divisions and potentially across the Company.

### Sales and Marketing

We are committed to continuously enhancing our customer experience including how we target and attract our consumers. Our marketing program calls for a balanced approach of corporate support and local expertise to attract potential homebuyers in a focused, efficient and cost-effective manner. Our corporate sales and marketing team provides a generalized marketing framework across our regional operations as well as sales training to our local teams. Our divisional sales and marketing teams utilize local media and marketing channels to deliver a unique message that is relevant to our consumer groups in each market.

Our goal is to identify the preferences of our customers and demographic groups and offer them innovative, high-quality homes that are efficient and profitable to build. We strive to maintain product and price level differentiation through market and customer research. We target a balance of regional market portfolios across a variety of demographics. We also use key indicators of market specific supply and demand characteristics to determine preferences of our customer base and to perform an optimal matching of consumer groups, product and community design, and specific location.

The central element of our marketing platform is our web presence at [www.taylormorrison.com](http://www.taylormorrison.com) and [www.darlinghomes.com](http://www.darlinghomes.com) (none of the information on or accessible through these websites is a part of this Annual Report). The main purpose of these websites is to direct potential customers to our sales team members in their community of interest. The websites also offer the ability of customers to evaluate floor plans, elevations, square footage, community amenities and geographic location. Customers are also able to use the websites to make inquiries and to receive a prompt response from one of our “Internet Home Consultants.” The websites are fully integrated with our CRM system. By analyzing the content of the CRM, we are able to focus our lead generation programs to deliver high-quality sales leads. With these leads we are better able to increase sale conversion rates and lower marketing costs. We believe the digital marketing strategy for our websites, which is continually reviewed and refined, provides

high return on our investments. During 2017, we commissioned a full analysis of our websites. This included all stakeholders as well as consumer facing research designed to provide an industry leading digital presence in 2018 and beyond. Management anticipates implementation of our new sites to be complete by the end of 2018.

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



## Table of Contents

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

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

## Competition

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

In order to maximize our sales volumes, profitability and product strategy, we strive to understand our competition and their pricing, product and sales volume strategies and results. Competition among residential homebuilders of all sizes is based on a number of interrelated factors, including location, reputation, amenities, floor plans, design, quality and price. We believe that we compare favorably to other homebuilders in the markets in which we operate.

## Seasonality

Our business is seasonal. We have historically experienced, and expect to continue to experience, variability in our results on a quarterly basis. We generally have more homes under construction, close more homes and have greater revenues and operating income in the third and fourth quarters of the year. Our results, 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, but are not limited to:

- the timing of the introduction and start of construction of new projects;
- the timing of sales;
- the timing of closings of homes, lots and parcels;
- 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 cost and availability of materials and labor; and
- weather conditions in the markets in which we build.



## Table of Contents

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

	Three Months Ended, 2017								Three Months Ended, 2016							
	March 31	June 30	September 30	December 31	March 31	June 30	September 30	December 31	March 31	June 30	September 30	December 31	March 31	June 30	September 30	December 31
Net homes sold	29%	28%	21%	22%	24%	27%	26%	23%	24%	27%	26%	23%	24%	27%	26%	23%
Home closings revenue	20%	23%	23%	34%	18%	24%	24%	34%	18%	24%	24%	34%	18%	24%	24%	34%
Income from continuing operations before income taxes	15%	22%	22%	41%	12%	22%	28%	38%	12%	22%	28%	38%	12%	22%	28%	38%
Net income from continuing operations	20%	32%	31%	17%	13%	22%	28%	37%	20%	32%	31%	17%	13%	22%	28%	37%

<sup>(1)</sup>Includes effects of tax reform.

## Mortgage Operations

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

- to utilize mortgage finance as a sales tool in the purchase process to ensure a consistent customer experience and assist in maintaining production efficiency; and
- to control and analyze our backlog quality and to better manage projected closing and delivery dates for our customers.

TMHF operates as an independent mortgage banker and conducts its business as a FHA Full Eagle lender. TMHF funds mortgage loans utilizing warehouse credit facilities. Revenue is earned through origination and processing fees combined with service release premiums earned in the secondary market once the loans are sold to investors. Typically, loans are sold and servicing is released within 15-20 business days.

TMHF competes with other mortgage lenders, including national, regional and local mortgage bankers and other financial institutions. TMHF utilizes a multi-investor correspondent platform which gives us increased flexibility when placing loans to meet our customers' needs. TMHF has continued to expand and strengthen our correspondent relationships. This has created stability and consistency in our origination process and delivery.

Inspired Title operates as a title insurance agent under the title-only (examination) business model. Inspired Title searches and examines land title records, prepares title commitments and polices for homebuyers in our Florida, Georgia, North Carolina, South Carolina, and Texas markets, contracting with others (currently title insurance underwriters and attorneys) to perform the escrow closing functions. Inspired Title competes against other title underwriters and title/escrow agents that provide similar services.

## Regulation, Environmental, Health and Safety Matters

### Regulatory

We are subject to various local, state and federal statutes, ordinances, rules and regulations concerning zoning, building design, construction and similar matters, including local regulations that impose restrictive zoning and density requirements in order to limit the number of homes that can eventually be built within the boundaries of a particular property or locality. In a number of our markets, there has been an increase in state and local legislation

requiring the dedication of land as open space. In addition, we are subject to various licensing, registration and filing requirements in connection with the construction, advertisement and sale of homes in our communities. The impact of these laws has been to increase our overall costs, and may delay the opening of communities or cause us to conclude that development of particular communities would not be economically feasible, even if any or all necessary governmental approvals are obtained. We also may be subject to periodic delays or may be precluded

## Table of Contents

entirely from developing communities due to building moratoriums in one or more of the areas in which we operate. Generally, such moratoriums relate to insufficient water, power, drainage or sewage facilities or inadequate road capacity.

In order to secure certain approvals in some areas, we may be required to provide affordable housing at below market sales prices. In addition, local and state governments have broad discretion regarding the imposition of development fees for projects under their jurisdictions, as well as requiring concessions or that the builder construct certain improvements to public places such as parks and streets or fund schools. The impact of these requirements on us depends on how the various state and local governments in the areas in which we engage, or intend to engage, in development implement their programs. To date, these restrictions have not had a material impact on us.

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

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

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

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

## Environmental

We also are subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning protection of public health and the environment (collectively, "environmental laws"). For example, environmental laws may affect: how we manage stormwater runoff, wastewater discharges, and dust; how we develop or operate on properties on or affecting resources such as wetlands, endangered species, cultural resources, or areas subject to preservation laws; and how we address contamination. The particular environmental laws that apply to any given community vary greatly according to the location and environmental condition of the site and the present and former uses of the site. Complying with these environmental laws may result in delays, may cause us to incur substantial compliance and other costs, and/or may prohibit or severely restrict development in certain environmentally sensitive regions or areas. Noncompliance with environmental laws could result in fines and penalties, obligations to remediate, permit revocation, and other sanctions; and contamination or other environmental conditions at or in the vicinity of our developments could result in claims against us for personal injury, property damage, or other losses.

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

We manage compliance with environmental laws at the division level with assistance from the corporate and regional legal departments.

#### Health and Safety

We are committed to maintaining high standards in health and safety at all of our sites. We have a health and safety audit system that includes comprehensive twice-yearly independent third-party inspections of selected sites covering all aspects of health and safety. Key areas of focus are on site conditions meeting exacting health and safety standards, and on subcontractor

## Table of Contents

performance throughout our operating areas meeting or exceeding expectations. All of our team members must complete an assigned curriculum of online safety courses each year. These courses vary according to job responsibility. In addition, groups such as construction and field personnel are required to attend additional health and safety related training programs.

### Information Technology

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

### Intellectual Property

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

### Employees, Subcontractors and Consultants

As of December 31, 2017, we employed approximately 1,800 full-time equivalent persons. Of these, approximately 1,600 were engaged in corporate and homebuilding operations, and the remaining approximately 200 were engaged in mortgage and title services. As of December 31, 2017, we were not subject to collective bargaining agreements. We consider our employee relations to be good.

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

## ITEM 1A. RISK FACTORS

### Risks related to our industry and our business

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

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

- short- and long-term interest rates;
- the availability and cost of financing for homebuyers;
- federal and state income tax laws, including provisions for the deduction of mortgage interest or property tax payments;
- employment levels, job and personal income growth and household debt-to-income levels;
- consumer confidence generally and the confidence of potential homebuyers in particular;
- the ability of existing homeowners to sell their existing homes at prices that are acceptable to them;
- the U.S. and global financial system and credit markets, including stock market and credit market volatility;

private and federal mortgage financing programs and federal and state regulation of lending practices;  
housing demand from population growth, household formations and demographic changes (including immigration levels and trends or other costs of home ownership in urban and suburban migration);  
demand from foreign buyers for our homes, which may fluctuate according to economic circumstances in foreign markets;  
the supply of available new or existing homes and other housing alternatives, such as apartments and other residential rental property;  
real estate taxes;



## Table of Contents

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

Adverse changes in these conditions may affect our business nationally or may be more prevalent or concentrated in particular regions or localities in which we operate. During the most recent economic downturn, unfavorable changes in many of the above factors negatively affected all of the markets we serve. Economic conditions in certain of our markets continue to be susceptible to fluctuations. For example, fluctuations in oil and gas prices have, in the past, created economic uncertainty, particularly in regions of Texas, such as the greater Houston area, where we have significant operations. Additionally, governmental action and legislation related to economic stimulus, taxation, spending levels and borrowing limits, immigration, as well as political debate, conflicts and compromises related to such actions, may negatively impact the financial markets and consumer confidence and spending, which could adversely impact the U.S. economy and the housing market. Any deterioration or significant uncertainty in economic or political conditions could have a material adverse effect on our business.

Inclement weather, natural disasters (such as earthquakes, hurricanes, tornadoes, floods, droughts, mudslides and wildfires) and other environmental conditions may delay the delivery of our homes, increase our costs or impact demand for our homes. In particular, we have operations in regions that, in 2017, were impacted by extreme weather conditions, including Hurricane Harvey and Hurricane Irma.

Furthermore, civil unrest or acts of terrorism, other acts of violence, threats to national security or a public health issue such as a major epidemic or pandemic in the United States or internationally may also have a negative effect on our business.

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

A slowdown or severe downturn in the housing market could have additional adverse effects on our operating results and financial condition.

During periods of industry downturn, housing markets across the United States may experience an oversupply of both new and resale home inventory, an increase in foreclosures, reduced levels of consumer demand for new homes, increased cancellation rates, aggressive price competition among homebuilders and increased incentives for home sales. The most recent industry downturn that began in 2008 significantly and adversely impacted those in the homebuilding industry, including us. In the event of a significant downturn we may experience a material reduction in revenues, margins, and cash flow.

Although the U.S. housing market continues to recover, we cannot predict the overall trajectory of the market. Some housing markets and submarkets have been stronger than others, and there continues to be variability in operating trends. We expect that such volatility will continue, whether or not the present housing recovery progresses, and that prevailing conditions in various housing markets and submarkets will continue to fluctuate. These fluctuations may be significant and unfavorable. In addition, while some of the many negative factors that contributed to the housing downturn have moderated, several remain, and they could return and/or intensify to inhibit any future improvement in housing market conditions in 2018 and beyond. Although we take steps to alleviate the impact of these conditions on our business, given the volatility in the homebuilding industry and global economic and political uncertainty, there can be no guarantee that steps taken by us will be effective.

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

A substantial majority of our homebuyers finance their home purchases through lenders that provide mortgage financing. The availability of mortgage credit may fluctuate, including due to various regulatory changes and lower risk appetite by lenders with many lenders requiring increased levels of financial qualification, including lenders adhering to the currently applicable “Qualified Mortgage” requirements under the Dodd-Frank Act and ability to repay standard, and lending lower multiples of income. Investors and first-time homebuyers are generally more affected by the availability of financing than other potential homebuyers. A limited availability of home mortgage financing may adversely affect the volume of our home sales and the sales prices we achieve. It could also prevent or limit our ability to attract new customers, our existing customers’ ability to resell their home and/or our ability to fully realize our backlog, because our sales contracts generally include a financing contingency, which permits the customer to cancel its obligation in the event mortgage financing at prevailing interest rates, including financing arranged or provided by us, is unobtainable within the period specified in the contract.

The liquidity provided by government sponsored entities, such as Fannie Mae, Freddie Mac, Ginnie Mae, the FHA and Veterans Administration, to the mortgage industry has been very important to the housing market. If Fannie Mae and Freddie

## Table of Contents

Mac were dissolved, or if the federal government determined to stop providing liquidity support to the mortgage market, there would be a reduction in the availability of the financing provided by these institutions. Any such reduction would likely have an adverse effect on interest rates, mortgage availability and our sales of new homes.

FHA-insured mortgage loans generally have lower down-payment requirements and qualification standards compared to conventional guidelines and, as a result, the FHA continues to be a particularly important source for financing the sale of our homes. Lenders have taken and may continue to take a more conservative view of FHA guidelines causing significant tightening of borrower eligibility for approval. In January 2017, in response to a presidential executive order, the U.S. Department of Housing and Urban Development sent a letter to lenders, real estate brokers and closing agents suspending the 0.25 percentage point premium rate cut for FHA-backed loans. Further support reductions are expected on FHA-insured loans, including limitations on seller-paid closing costs and concessions. This or any other restriction or support reduction may negatively affect the availability or affordability of FHA financing, which could adversely affect our ability to sell homes.

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

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

Increases in interest rates as a result of changes to monetary policy could significantly increase the costs of owning a home or result in existing homeowners with low interest rates choosing to remain in their current homes rather than purchase a new home in a higher interest rate environment, which in turn would adversely impact demand for and sales prices of homes and the ability of potential customers to obtain financing and adversely affect our business, financial condition and operating results. While interest rates have been at historic lows, the Federal Reserve Board has recently been raising interest rates, and it is anticipated that interest rates will likely continue to increase over the next several years.

Significant expenses of owning a home, including mortgage interest and real estate taxes, generally are deductible expenses for an individual's U.S. federal and, in some cases, state income taxes, subject to various limitations. Changes to income tax laws to eliminate, limit or substantially modify these income tax deductions, the after-tax cost of owning a new home would increase for many of our potential customers. The resulting loss or reduction of homeowner tax deductions without offsetting provisions or any other increase in any taxes affecting homeowners could adversely impact demand for and sales prices of new homes. The Tax Act generally limits, through the end of 2025, the annual deduction for real estate taxes and state and local income or sales taxes to \$10,000. In addition, under the Tax Act, through the end of 2025 the deduction for mortgage interest for new home purchases will generally only be available with respect to acquisition indebtedness that does not exceed \$750,000 (after 2025, the acquisition indebtedness threshold is scheduled to return to the \$1.0 million limit that existed prior to the Tax Act). The impact of the Tax Act or further loss or reduction of these homeowner tax deductions without any offsetting legislation may result in an increase in the total cost of home ownership and make the purchase of a home less attractive to buyers. This could adversely impact demand for and sales prices of new homes, including ours.

Additionally, increases in property tax rates by local governmental authorities, as experienced in response to reduced federal and state funding, can adversely affect the ability of potential customers to obtain financing or their desire to purchase new homes. Fees imposed on developers to fund schools, open spaces, road improvements and/or provide low and moderate income housing, could increase our costs and have an adverse effect on our operations. In addition, increases in sales taxes could adversely affect our potential customers who may consider those costs in determining whether to make a new home purchase and decide, as a result, not to purchase one of our homes.

We are and will be affected by the recent tax legislation.

The Tax Act significantly amends the U.S. federal tax code and includes, among other provisions, (1) substantial limitations on the deductibility of state and local taxes by individuals and further limitations on mortgage interest deductions and (2) the migration from a worldwide system of taxation to a modified territorial system for corporations. Although we expect that, as a result of the reduction in the corporate tax rates from 35% to 21% and other changes to law, the Tax Act will be financially and cash flow beneficial to us. As part of the migration to a territorial system, the Tax Act imposes a one-time tax on post-1986 earnings and profits (“E&P”) of certain foreign subsidiaries to their 10% U.S. shareholders (regardless of whether such E&P is

## Table of Contents

distributed) at a rate of 15.5% for U.S. corporate shareholders to the extent E&P does not exceed the U.S. shareholder's aggregate foreign cash position (as defined in the Tax Act) and 8% for E&P in excess of such cash position. The resulting tax may be payable over eight years. Because of the interest we hold in a partially-owned subsidiary Canadian corporation, we are subject to the tax on our share of the subsidiary Canadian corporation's E&P as of November 2, 2017 or December 31, 2017 (whichever is greater). As a result, we have recorded an estimated \$3.6 million charge related to the mandatory deemed repatriation of foreign earnings related to the sale of our Canadian business in 2015. This estimate is subject to change, however, and we are continuing to gather additional information to more precisely compute the amount of the tax that we will pay. Further, as a result of the reduction in the corporate tax rates, we have recorded a \$57.4 million reduction in the value of our deferred tax assets.

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

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

- work stoppages resulting from labor disputes;
- shortages of and competition for qualified trades people, such as carpenters, roofers, electricians and plumbers;
- changes in laws relating to union organizing activity;
- changes in immigration laws and policies and trends with respect to labor force migration; and
- increases in subcontractor and professional services costs.

Labor shortages can be further exacerbated as demand for housing increases. Any of these circumstances could give rise to delays in the start or completion of, or could increase the cost of, developing one or more of our communities and building homes. For example, the homebuilding industry has been experiencing shortages of skilled labor and increased labor costs, including in several locations in which we operate, which has resulted in longer delivery times. We may not be able to recover increased costs by raising our home prices, because the price for each home is typically set months prior to its delivery pursuant to sales contracts with our homebuyers. In such circumstances, our operating results could be adversely affected. Additionally, market and competitive forces may also limit our ability to raise the sales prices of our homes.

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

Our backlog represents sales contracts with our homebuyers for homes that have not yet been delivered. We have received a deposit from a homebuyer for each home reflected in our backlog and, generally, we have the right, subject to certain exceptions, to retain the deposit if the homebuyer fails to comply with his or her obligations under the sales contract, including as a result of state and local law, the homebuyer's inability to sell his or her current home or the homebuyer's inability to make additional deposits required prior to the closing date. In some situations, however, a homebuyer may cancel the agreement of sale and receive a complete or partial refund of the deposit.

If prices for new homes decline, if competitors increase their use of sales incentives, if interest rates increase, if the availability of mortgage financing diminishes, if current homeowners find it difficult to sell their current homes or if there is a downturn in local or regional economies or in the national economy, U.S. homebuyers may terminate their existing home purchase contracts with us in order to negotiate for a lower price or because they cannot, or will not, complete the purchase and our remedies generally do not extend beyond the retention of deposits as our liquidated damages.

In cases of cancellation, we remarket the home and retain any deposits we are permitted to retain. Nevertheless, the deposits may not cover the additional costs involved in remarketing the home, replacing or modifying installed options, reducing the sales price or increasing incentives on the completed home for greater marketability and carrying

higher inventory. Further, depending on the stage of cancellation, a contract that is cancelled at the end of a phase may cause additional construction costs, roadway repairs or added nuisances to existing homeowners for the out of sequence construction or modification of the particular home. Significant numbers of cancellations could adversely affect our business, financial condition and results of operations.

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

We operate in a very competitive environment with competition from a number of other homebuilders in each market in which we operate. We compete with large national and regional homebuilding companies and with smaller local homebuilders for land, financing and related services, raw materials, skilled management, volume discounts, local REALTOR® and labor resources. We also compete with the resale, or “previously owned,” home market, as well as other housing alternatives such as

## Table of Contents

the rental housing market. Additionally, some of our competitors have longstanding relationships with subcontractors and suppliers in markets in which we operate and others may have significantly greater financial resources or lower costs than us. Competitive conditions in the homebuilding industry could make it difficult for us to acquire suitable land at acceptable prices, cause us to increase selling incentives and/or reduce or discount prices and/or result in an oversupply of homes for sale. These factors have adversely affected demand for our homes and our results of our operations in the past and could do so again in the future.

Additionally, our mortgage and title services businesses compete with other mortgage lenders and title companies, including national, regional and local mortgage banks and other financial institutions, some of which may be subject to fewer government regulations or, in the case of mortgage lenders, may have a greater range of products, greater access to capital or different lending criteria and may be able to offer more attractive financing to potential customers.

If we are unable to compete effectively in our homebuilding and mortgage and title services markets, our business could decline disproportionately to our competitors, and our results of operations and financial condition could be adversely affected.

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

In the United States, the unemployment rate was 4.1% as of January 2018, according to the U.S. Bureau of Labor Statistics (“BLS”). In addition, the labor force participation rate reported by the BLS has been declining, from 66.2% in January 2008 to 62.7% in January 2018, potentially reflecting an increased number of “discouraged workers” who have left the labor force. In addition, a substantial portion of new jobs created have been relatively low-wage jobs or part-time jobs. People who are not employed, are underemployed, who have left the labor force or are concerned about low wages or the loss of their jobs are less likely to purchase new homes, may be forced to try to sell the homes they own and may face difficulties in making required mortgage payments. Therefore, any increase in unemployment or underemployment may lead to an increase in the number of loan delinquencies and property repossessions and have an adverse impact on us both by reducing demand for the homes we build and by increasing the supply of homes for sale.

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

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

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

Furthermore, a material decline in oil and gas prices may increase the risk of significant deflation and its adverse impact on our business or financial results, as the economies of some of the markets in which we operate are impacted by the health of the energy industry. To the extent that energy prices are volatile or change significantly, the economies of certain of our markets, particularly in regions of Texas where we have significant operations, may be negatively impacted, which may adversely impact the financial position, results of operations and cash flows of our business. In addition, the cost of raw materials such as lumber, concrete and steel can be adversely affected by increases in various energy costs, resulting in a negative impact to our financial position, results of operations and cash flows of our business.

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

Our quarterly operating results generally fluctuate by season as a result of a variety of factors such as:

- timing of home deliveries and land sales;
- the changing composition and mix of our asset portfolio; and
- weather-related issues.



## Table of Contents

Historically, a larger percentage of our home sale contracts have been entered into in the winter and spring. Weather-related problems, typically in the fall, late winter and early spring, may delay starts or closings and increase costs and thus reduce profitability. Seasonal natural disasters such as hurricanes, tornadoes, floods and wildfires could cause delays in the completion of, or increase the cost of, developing one or more of our communities, causing an adverse effect on our sales and revenues. For example, during the third quarter of 2017, our results of operations were affected by Hurricane Harvey and Hurricane Irma, which caused community closures and delays in deliveries and production.

In some cases, we may not be able to recapture increased costs by raising prices. In addition, deliveries may be staggered over different periods of the year and may be concentrated in particular quarters. Our quarterly operating results may fluctuate because of these factors. See Item 1 - Business - Seasonality.

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

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

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

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

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

As a consequence, we maintain products and completed operations excess liability insurance, obtain indemnities and certificates of insurance from subcontractors generally covering claims related to damages resulting from faulty workmanship and materials and maintain warranty and other reserves for the homes we sell based on historical experience in our markets and our judgment of the risks associated with the types of homes built. Although we actively monitor our insurance reserves and coverage, because of the uncertainties inherent to these matters, we cannot provide assurance that our insurance coverage, our subcontractor's indemnity and warranty arrangements and our reserves together will be adequate to address all of our warranty and construction defect claims in the future. In

addition, contractual indemnities with our subcontractors can be difficult to enforce. We may also be responsible for applicable self-insured retentions and some types of claims may not be covered by insurance or may exceed applicable coverage limits. Additionally, the coverage offered by and the availability of products and completed operations excess liability insurance for construction defects is currently limited and costly. This coverage may be further restricted or become more costly in the future.

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

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

## Table of Contents

Our reliance on subcontractors can expose us to various liability risks.

We rely on subcontractors in order to perform the construction of our homes and, in many cases, to select and obtain raw materials. We are exposed to various risks as a result of our reliance on these subcontractors and their suppliers, including, as described above, the possibility of defects in our homes due to improper practices or materials used by such parties, which may require us to comply with our warranty obligations and/or bring a claim under an insurance policy. The subcontractors we rely on to perform the actual construction of our homes are also subject to a significant and evolving number of local, state and federal laws and regulations, including laws involving matters that are not within our control. If these subcontractors who construct our homes fail to comply with all applicable laws, we can suffer reputational damage and may be exposed to liability.

Subcontractors are independent of the homebuilders that contract with them under normal management practices and the terms of trade contracts and subcontracts within the homebuilding industry. We do not have the ability to control what these independent subcontractors pay to or the work rules they impose on their employees. However, various federal and state governmental agencies have sought, and may in the future seek, to hold contracting parties like us responsible for our subcontractors' violations of wage and hour laws, or workers' compensation, collective bargaining and/or other employment-related obligations related to subcontractors' workforces. Governmental agency determinations or attempts by others to make us responsible for our subcontractors' labor practices or obligations, whether under "joint employer" theories, specific state laws or regulations, such as under the California Labor Code, or otherwise, could create substantial adverse exposure for us in situations that are not within our control and could be material to our business, financial condition and results of operations.

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

We own and purchase a large number of sites each year and are therefore dependent on our ability to process a very large number of transactions (which include, among other things, evaluating the site purchase, designing the layout of the development, sourcing materials and subcontractors and managing contractual commitments) efficiently and accurately. Errors by employees, failure to comply with regulatory requirements and conduct of business rules, failings or inadequacies in internal control processes, equipment failures, natural disasters or the failure of external systems, including those of our suppliers or counterparties, could result in operational losses that could adversely affect our business, financial condition and operating results and our relationships with our customers.

In addition, we incur many costs even before we begin to build homes in a community. Depending on the stage of development of a land parcel when we acquire it, these may include: costs of preparing land, finishing and entitling lots, installing roads, sewers, water systems and other utilities, taxes and other costs related to ownership of the land on which we plan to build homes; constructing model homes; and promotional and marketing expenses to prepare for the opening of a new home community for sales. Moreover, local municipalities may impose development-related requirements resulting in additional costs. If the rate at which we sell and deliver homes slows or falls, or if our opening of new home communities for sales is delayed, we may incur additional costs, which would adversely affect our gross profit margins, and it will take a longer period of time for us to recover our costs, including those we incurred in acquiring and developing land.

In certain circumstances, a grant of entitlements or development agreement with respect to a particular parcel of land may include restrictions on the transfer of such entitlements to a buyer of such land, which may increase our exposure to decreases in the price of such entitled land by restricting our ability to sell it for its full entitled value. In addition, inventory carrying costs can be significant and can result in reduced margins or losses in a poorly performing community or market. Further, if we were required to record a significant inventory impairment, it could negatively affect our reported earnings per share and negatively impact the market perception of our business.

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

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

## Table of Contents

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

The market value of our land and housing inventories depends on market conditions. We acquire land for expansion into new markets and for replacement of land inventory and expansion within our current markets, and there is often a significant lag time between when we acquire land for development and when we sell homes in our communities. This risk is exacerbated particularly with undeveloped and/or unentitled land.

There is an inherent risk that the value of the land owned by us may decline after purchase. The valuation of property is inherently subjective and based on the individual characteristics of each property. We may have acquired options on or bought and developed land at a cost we will not be able to recover fully or on which we cannot build and sell homes profitably. In addition, our deposits for lots controlled under option or similar contracts may be put at risk, and depressed land values may cause us to abandon and forfeit deposits on land option contracts and other similar contracts if we cannot satisfactorily renegotiate the purchase price of the subject land. Factors such as changes in regulatory requirements and applicable laws (including in relation to building regulations, taxation and planning), political conditions, the condition of financial markets, both local and national economic conditions, the financial condition of customers, potentially adverse tax changes, and interest and inflation rate fluctuations subject valuations to uncertainty. Moreover, all valuations are made on the basis of assumptions that may not prove to reflect economic or demographic reality. If housing demand decreases below what we anticipated when we acquired our inventory, our profitability may be adversely affected and we may not be able to recover our costs when we sell and build houses. In addition, we may incur charges against our earnings for inventory impairments if the value of our owned inventory, including land we decide to sell, is reduced or for land option contract abandonments if we choose not to exercise land option contracts or other similar contracts, and these charges may be substantial.

We regularly review the value of our land holdings and continue to review our holdings on a periodic basis. If material write-downs and impairments in the value of our inventory are required and, if in the future we are required to sell land or homes at a loss, our results of operations and financial condition would be adversely affected.

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

The approval of numerous governmental authorities must be obtained in connection with our development activities, and these governmental authorities often have broad discretion in exercising their approval authority. We incur substantial costs related to compliance with legal and regulatory requirements. Any increase in legal and regulatory requirements may cause us to incur substantial additional costs, or in some cases cause us to determine that a property is not feasible for development. Various local, state and federal statutes, ordinances, rules and regulations concerning building, health and safety, site and building design, environment, zoning, sales and similar matters apply to and/or affect the housing industry. In addition, our ability to obtain or renew permits or approvals and the continued effectiveness of permits already granted or approvals already obtained depends on factors beyond our control, such as changes in federal, state and local policies, rules and regulations and their interpretations and application. Furthermore, we are also subject to various fees and charges of government authorities designed to defray the cost of providing certain governmental services and improvements. For example, local and state governments have broad discretion regarding the imposition of development fees for projects under their jurisdictions, as well as requiring concessions or that the builder construct certain improvements to public places such as parks and streets or fund schools.

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

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

Governmental regulation affects not only construction activities but also sales activities, mortgage lending activities and other dealings with consumers. Further, government agencies routinely initiate audits, reviews or investigations of our business practices to ensure compliance with applicable laws and regulations, which can cause us to incur costs or create other disruptions in our business that can be significant. Further, we may experience delays and increased expenses as a result of legal challenges to our proposed communities, whether brought by governmental authorities or private parties.

## Table of Contents

Regulations regarding environmental matters and climate change may affect us by substantially increasing our costs and exposing us to potentially liability.

We are subject to various environmental laws and regulations, which may affect aspects of our operations such as how we manage stormwater runoff, wastewater discharges and dust; how we develop or operate on properties on or affecting resources such as wetlands, endangered species, cultural resources, or areas subject to preservation laws; and how we address contamination. Developers and homebuilders may become subject to more stringent requirements under such laws. For example, the U.S Environmental Protection Agency and U.S. Army Corps of Engineers have been engaged for years in rulemakings to clarify the scope of federally regulated wetlands, which included: a June 2015 rule many affected businesses contend impermissibly expanded the scope of such wetlands that was challenged in court, stayed, and remains in litigation; and a proposal in June 2017 to formally rescind the June 2015 rule and reinstate the rule scheme previously in place while the agencies initiate a new substantive rulemaking on the issue. It is unclear how these and related developments, including at the state or local level, ultimately may affect the scope of regulated wetlands where we operate. Although we cannot reliably predict the extent of any effect these developments regarding wetlands, or any other environmental requirements that may take effect may have on us, they could result in time-consuming and expensive compliance programs and in substantial expenditures, which could cause delays and increase our cost of operations. Our noncompliance with environmental laws could result in fines and penalties, obligations to remediate, permit revocations and other sanctions. Contamination or other environmental conditions at or in the vicinity of our developments could result in claims against us for personal injury, property damage, or other losses.

In addition, there is a variety of legislation being enacted, or considered for enactment, at the federal, state and local level relating to energy and climate change. This legislation relates to items such as carbon dioxide emissions control and building codes that impose energy efficiency standards. New building code requirements that impose stricter energy efficiency standards could significantly increase our cost to construct homes. As climate change concerns continue to grow, legislation and regulations of this nature are expected to continue and become more costly to comply with. In addition, it is possible that some form of expanded energy efficiency legislation may be passed by the U.S. Congress or federal agencies and certain state legislatures, which may, despite being phased in over time, significantly increase our costs of building homes and the sale price to our buyers and adversely affect our sales volumes. We may be required to apply for additional approvals or modify our existing approvals because of changes in local circumstances or applicable law. Energy-related initiatives affect a wide variety of companies throughout the United States and the world and, because our operations are heavily dependent on significant amounts of raw materials, such as lumber, steel and concrete, they could have an indirect adverse impact on our operations and profitability to the extent the manufacturers and suppliers of our materials are burdened with expensive cap and trade and similar energy related taxes and regulations.

Our mortgage operations are subject to risks, including risks associated with our ability to sell mortgages we originate and to claims on loans sold to third parties.

While we intend for the loans originated by TMHF, our mortgage operations business, to be sold on the secondary market, if TMHF is unable to sell loans into the secondary mortgage market or directly to large secondary market loan purchasers such as Fannie Mae and Freddie Mac, TMHF would bear the risk of being a long-term investor in these originated loans. Being required to hold loans on a long-term basis would subject us to credit risks associated with the borrowers to whom the loans are extended, would negatively affect our liquidity and could require us to use additional capital resources to finance the loans that TMHF is extending. In addition, although mortgage lenders under the mortgage warehouse facilities TMHF currently uses to finance our lending operations normally purchase our mortgages within approximately 20-30 days of origination, if such mortgage lenders default under these warehouse facilities TMHF would be required to fund the mortgages then in the pipeline. In such case, amounts available under

our Revolving Credit Facility (as defined below) and cash from operations may not be sufficient to allow TMHF to provide financing required by our business during these times, and our ability to originate and sell mortgage loans at competitive prices could be limited, which could negatively affect our business. Further, an obligation to commit our own funds to long-term investments in mortgage loans could, among other things, delay the time when we recognize revenues from home sales on our statements of operations.

Our mortgage operations may also be responsible for losses associated with mortgage loans originated and sold to investors in the event of errors or omissions relating to certain representations and warranties made to secondary market purchasers that the loans sold meet certain requirements, including representations as to underwriting standards, the type of collateral, the existence of primary mortgage insurance and the validity of certain borrower representations in connection with the loan. Accordingly, mortgage investors could seek to have us buy back loans or compensate them for losses incurred on mortgages we have sold based on claims that we breached our limited representations or warranties. If, due to higher costs, reduced liquidity, residential consumer loan putback demands or internal or external reviews of its residential consumer mortgage loan



## Table of Contents

foreclosure processes, or other factors or business decisions, TMHF is unable to make loan products available to our homebuyers, our home sales and mortgage services results of operations may be adversely affected.

We enter into interest rate lock commitments (“IRLCs”) to originate residential mortgage loans held for sale, at specified interest rates and within a specified period of time (generally between 30 and 60 days), with customers who have applied for a loan and meet certain credit and underwriting criteria. These commitments expose us to market risk if interest rates change and the underlying loan is not economically hedged or committed to an investor. We also have exposure to credit loss in the event of contractual non-performance by our trading counterparties in derivative instruments that we use in our rate risk management activities. We aim to manage this credit risk by selecting only counterparties that we believe to be financially strong, spreading the risk among multiple counterparties, by placing contractual limits on the amount of unsecured credit extended to any single counterparty, and by entering into netting agreements with counterparties, as appropriate.

Our mortgage operations and title services businesses may be adversely affected by changes in governmental regulation.

Changes in governmental regulation with respect to mortgage lenders and title service providers could adversely affect the financial results of this portion of our business. Our mortgage operations are subject to numerous federal, state and local laws and regulations, including with respect to originating, processing, selling and servicing mortgage loans, which, among other things: prohibit discrimination and establish underwriting guidelines; provide for audits and inspections; require appraisals and/or credit reports on prospective borrowers and disclosure of certain information concerning credit and settlement costs; establish maximum loan amounts; prohibit predatory lending practices; and regulate the referral of business to affiliated entities. In addition, our title insurance operations are also subject to applicable insurance and banking laws and regulations.

The regulatory environment for mortgage lending is complex and ever changing and has led to an increase in the number of audits and investigations in the industry. In addition, there have been numerous changes and proposed changes in regulations affecting the financial services industry as a result of the housing downturn. For example, in July 2010, the Dodd-Frank Act was enacted. Among other things, this legislation provides for minimum standards for mortgages and lender practices in making mortgages, limitations on certain fees, retention of credit risk, prohibition of certain tying arrangements and remedies for borrowers in foreclosure proceedings. In January 2013, the Consumer Financial Protection Bureau proposed a number of new rules that became effective in January 2014, including but not limited to rules regarding the creation and definition of a “Qualified Mortgage,” rules for lender practices regarding assessing borrowers’ ability to repay and limitations on certain fees and incentive arrangements. In October 2015, the Consumer Financial Protection Bureau’s new Truth in Lending - Real Estate Settlement Procedures Act (TILA-RESPA) Integrated Disclosure Rule became effective. This rule implemented additional disclosure timeline requirements and fee tolerances. The effects of these rules could affect the availability and cost of mortgage credit, negatively impact closing timelines and the delivery of homes and adversely affect the costs and financial results of financial services and homebuilding companies. Other requirements provided for by the Dodd-Frank Act have not yet been finalized or implemented. The effect of provisions on our mortgage operations and title services businesses will depend on the rules that are ultimately enacted. Any such changes or new enactments could result in more stringent compliance standards, which could adversely affect our financial condition and results of operations and the market perception of our business. Additionally, if we are unable to originate mortgages for any reason going forward, our customers may experience significant mortgage loan funding issues, which could have a material impact on our homebuilding business and our consolidated financial statements.

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

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

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

We have significant deferred tax assets, including net operating losses that could be used to offset earnings and reduce the amount of taxes we are required to pay. Our ability to use net operating losses to offset earnings is dependent on a number of factors, including applicable rules relating to the permitted carry back period for offsetting certain net operating losses against prior period earnings and the timing and amount of future taxable income. If we are unable to use our net operating losses, we may have to record charges to reduce our deferred tax assets, which could have an adverse effect on our results of operations. In addition, as a result of the reduction in the corporate tax rates under the Tax Act, we experienced a \$57.4 million reduction in

## Table of Contents

our deferred tax assets, and our deferred tax assets, net of deferred tax liabilities and valuation allowance, were \$118.1 million as of December 31, 2017.

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

The homebuilding industry has, from time to time, experienced raw material shortages and been adversely affected by volatility in global commodity prices. In particular, shortages and fluctuations in the price of concrete, drywall, lumber or other important raw materials could result in delays in the start or completion of, or increase the cost of, developing one or more of our residential communities. Our lumber needs are particularly sensitive to shortages. In addition, the cost of petroleum products, which are used both to deliver our materials and to transport workers to our job sites, fluctuates and may be subject to increased volatility as a result of geopolitical events or accidents such as the Deepwater Horizon accident in the Gulf of Mexico. Increases in such costs could also result in higher prices for products utilizing petrochemicals. Environmental laws and regulations may also have a negative impact on the availability and price of certain raw materials such as lumber and concrete. These cost increases may have an adverse effect on our operating margin and results of operations. Additionally, we may be unable to pass increases in construction costs on to our customers who may have already entered into purchase contracts. Furthermore, any such cost increase may adversely affect the regional economies in which we operate and reduce demand for our homes.

We have significant operations in certain geographic areas, which subjects us to an increased risk of loss of revenue or decreases in the market value of our land and homes in these regions from factors which may affect any of these regions.

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

- severe weather;
- natural disasters;
- climate change;
- shortages in the availability or increased costs in obtaining land, equipment, labor or building supplies;
- unemployment;
- changes to the population growth rates and therefore the demand for homes in these regions; and
- changes in the regulatory and fiscal environment.

Due to the concentrated nature of our operations, negative factors affecting one or a number of these geographic regions at the same time could result in a relatively greater impact on our results of operations than they might have on other companies that have a more diversified portfolio of operations. For example, we operate in a number of locations that were adversely impacted by severe weather conditions in 2017 and, as a result, our divisional operations in Houston and certain areas of Florida markets experienced closures, disruptions and delays. To the extent that regions in which our business is concentrated are impacted by an adverse event, we would be disproportionately affected compared to companies whose operations are less geographically concentrated.

The markets we operate in may also depend, to a degree, on certain sectors of the economy and any declines in those sectors may impact home sales and activities in that region. For example, to the extent the oil and gas industries, which can be very volatile, are negatively impacted by declining commodity prices, climate change, legislation or other factors, it could result in reduced employment, or other negative economic consequences, which in turn could adversely impact our home sales and activities, particularly in Texas. Similarly, slower rates of population growth or population declines in our key markets, especially as compared to the high population growth rates in prior years, could affect the demand for housing, causing home prices in these markets to fall, and adversely affect our business, financial condition and operating results.

We participate in certain unconsolidated joint ventures, including those where we do not have a controlling interest, where we may be adversely impacted by the failure of the unconsolidated joint venture or the other partners in the unconsolidated joint venture to fulfill their obligations.

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

## Table of Contents

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

If the other partners in our unconsolidated joint ventures do not provide such cooperation or fulfill these obligations due to their financial condition, strategic business interests (which may be contrary to ours), or otherwise, we may be required to spend additional resources (including payments under the guarantees we have provided to the unconsolidated joint ventures' lenders) or suffer losses, each of which could be significant. Moreover, our ability to recoup such expenditures and losses by exercising remedies against such partners may be limited due to the contractual terms of the joint venture agreement, potential legal defenses they may have, their respective financial condition and other circumstances. Furthermore, because we lack a controlling interest in our unconsolidated joint ventures we cannot exercise sole decision-making authority, which could create the potential risk of impasses on decisions and prevent the joint venture from taking actions that we believe may be in our best interests. In addition, as our relationships with our partners are contractual in nature and may be terminated or dissolved under the terms of the applicable joint venture agreements, including buy-sell provisions, we may not continue to own or operate the interests or assets underlying such relationship or may need to purchase additional interests or assets in the venture to continue ownership. In the event a joint venture is terminated or dissolved, we could also be exposed to lawsuits and legal costs.

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

We use information technology and other computer resources to carry out important operational and marketing activities as well as maintain our business records, including information provided by our customers. Many of these resources are provided to us and/or maintained on our behalf by third-party service providers pursuant to agreements that specify certain security and service level standards. Our ability to conduct our business may be impaired if these resources are compromised, degraded, damaged or fail, whether due to a virus or other harmful circumstance, intentional penetration or disruption of our information technology resources by a third party, natural disaster, hardware or software corruption, failure or error (including a failure of security controls incorporated into or applied to such hardware or software), telecommunications system failure, service provider error or failure, intentional or unintentional personnel actions (including the failure to follow our security protocols), or lost connectivity to our networked resources. A significant and extended disruption in the functioning of these resources could impair our operations, damage our reputation and cause us to lose customers, sales and revenue.

In addition, breaches of our data security systems, including by cyber-attacks, could result in the unintended public disclosure or the misappropriation of our proprietary information or personal and confidential information, about our employees, consumers who view our homes, homebuyers, mortgage loan borrowers and business partners, requiring us to incur significant expense to address and resolve these kinds of issues. The release of confidential information may also lead to identity theft and related fraud, litigation or other proceedings against us by affected individuals and/or business partners and/or by regulators, and the outcome of such proceedings, which could include penalties or fines, could have a material and adverse effect on our reputation, business, financial condition and results of operations. Depending on its nature, a particular breach or series of breaches of our systems may result in the unauthorized use, appropriation or loss of confidential or proprietary information on a one-time or continuing basis, which may not be detected for a period of time. In addition, the costs of maintaining adequate protection against such threats, as they develop in the future (or as legal requirements related to data security increase) could be material.

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

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

- difficulties in assimilating the operations and personnel of acquired companies or businesses;
- diversion of our management's attention from ongoing business concerns;
- our potential inability to maximize our financial and strategic position through the successful incorporation or disposition of operations;
- maintenance of uniform standards, controls, procedures and policies; and
- impairment of existing relationships with employees, contractors, suppliers and customers as a result of the integration of new management personnel and cost-saving initiatives.

## Table of Contents

Acquisitions can result in dilution to existing stockholders if we issue our common stock as consideration, or reduce our liquidity if we fund them with cash. In addition, acquisitions can expose us to valuation risks, including the risk of writing off goodwill or impairing inventory and other assets related to such acquisitions. The risk of goodwill and asset impairments will increase during a cyclical housing downturn when our profitability may decline.

We cannot guarantee that we will be able to successfully integrate any company or business that we might acquire in the future, and our failure to do so could harm our current business. In addition, we may not realize the anticipated benefits of these transactions and there may be other unanticipated or unidentified effects. While we would seek protection, for example, through warranties and indemnities in the case of acquisitions, significant liabilities may not be identified in due diligence or may come to light after the expiry of warranty or indemnity periods. Additionally, in the case of disposals, while we would seek to limit our ongoing exposure, for example, through liability caps and time limits on warranties and indemnities, some warranties and indemnities may give rise to unexpected and significant liabilities. Any claims arising in the future may adversely affect our business, financial condition and operating results. We may not be able to manage the risks associated with these transactions and the effects of such transactions, which may materially and adversely affect our business, financial condition and operating results.

Dispositions have their own risks. For example, our disposition of Monarch in 2015 required the separation of our operations and personnel from those of Monarch, as well as our performance of certain related transition services. This required the allocation of management resources. Dispositions may also result in lost synergies that could negatively impact our balance sheet, income statement and cash flows.

We have defined benefit and defined contribution pension schemes to which we may be required to increase our contributions to fund deficits.

We provide retirement benefits for former and certain of our current employees through a number of defined benefit and defined contribution pension schemes. Certain of these plans are no longer available to new employees. As of December 31, 2017, we had an unfunded status of \$8.1 million in our defined benefit pension plans. This deficit may increase, and we may be required to increase contributions to our plans in the future, which may materially and adversely affect our liquidity and financial condition.

A major health and safety incident relating to our business could be costly in terms of potential liabilities and reputational damage.

Building sites are inherently dangerous and pose certain inherent health and safety risks to construction workers and other persons on the site. Due to health and safety regulatory requirements and the number of projects we work on, health and safety performance is critical to the success of all areas of our business. Any failure in health and safety performance may result in penalties for non-compliance with relevant regulatory requirements, and a failure that results in a major or significant health and safety incident is likely to be costly in terms of potential liabilities incurred as a result. Such a failure could generate significant negative publicity and have a corresponding impact on our reputation, our relationships with relevant regulatory agencies or governmental authorities, and our ability to attract customers and employees, which in turn could have a material adverse effect on our business, financial condition and operating results.

Ownership, leasing or occupation of land and the use of hazardous materials carries potential environmental risks and liabilities.

We are subject to a variety of local, state and federal statutes, rules and regulations concerning land use and the protection of health and the environment, including those governing discharge of pollutants to water and air, stormwater run-off, the presence of and exposure to asbestos, the handling of hazardous materials and the cleanup of

contaminated sites. Additionally, as a homebuilding business with a wide variety of historic homebuilding and construction activities, we could also be liable for future claims for damages as a result of the past or present use of hazardous materials, including building materials which in the future become known or are suspected to be hazardous. We may be liable for the costs of removal, investigation or remediation of hazardous or toxic substances located on, under or in a property currently or formerly owned, leased or occupied by us, whether or not we caused or knew of the pollution. The costs of any required removal, investigation or remediation of such substances or the costs of defending against environmental claims may be substantial, and insurance coverage for such claims may be limited or non-existent. The presence of such substances, or the failure to remediate such substances properly, may also adversely affect our ability to sell the land or to borrow using the land as security. Environmental impacts from historical activities have been identified at some of the projects we have developed in the past and additional projects may be located on land that may have been contaminated by previous use. Although we are not aware of any projects requiring material remediation activities by us as a result of historical contamination, no assurances can be given that material claims or liabilities



## Table of Contents

relating to such developments will not arise in the future, and such contamination or other environmental conditions at or in the vicinity of our developments could result in claims against us for personal injury, property damage or other losses.

The particular impact and requirements of environmental laws that apply to any given community vary greatly according to the community site, the site's environmental conditions and the present and former use of the site. We expect that increasingly stringent requirements may be imposed on homebuilders in the future. In addition, violations of environmental laws and regulations can result in injunctions, civil penalties, remediation expenses and other costs. Further, some environmental laws impose strict liability, which means that we may be held liable for unlawful environmental conditions on property we own which we did not create.

We may face substantial damages or be enjoined from pursuing important activities as a result of existing or future litigation, arbitration or other claims.

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 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, the related timing or any eventual loss. 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. Unfavorable litigation, arbitration or claims could also generate negative publicity in various media outlets that could be detrimental to our reputation.

Negative publicity or poor relations with the residents of our communities could negatively impact sales, which could cause our revenues or results of operations to decline.

Unfavorable media related to our industry, company, brands, marketing, personnel, operations, business performance, or prospects may affect our stock price and the performance of our business, regardless of its accuracy or inaccuracy. Our success in maintaining, extending and expanding our brand image depends on our ability to adapt to a rapidly changing media environment. Adverse publicity or negative commentary on social media outlets, such as blogs, websites or newsletters, could hurt operating results, as consumers might avoid or protest brands that receive bad press or negative reviews. Furthermore, negative publicity can be disseminated rapidly through these channels and other digital platforms. Customers and other interested parties could act on such information without further investigation and without regard to its accuracy. Accordingly, we could suffer immediate harm without affording us an opportunity for redress or correction. Any such negative publicity may result in a decrease in our operating results.

In addition, we can be affected by poor relations with the residents of communities we develop because these residents sometimes look to us to resolve issues or disputes that may arise in connection with the operation or development of their communities. Efforts made by us to resolve these issues or disputes could be deemed unsatisfactory by the affected residents and subsequent actions by these residents could adversely affect sales or our reputation. In addition, we could decide or be required to make material expenditures related to the settlement of such issues or disputes or to modify our community development plans, which could adversely affect our results of operations.

Failure to recruit, retain and develop highly skilled, competent people at all levels may have a material adverse effect on our financial condition or our standard of service.

Our business involves complex operations and, therefore, demands a management team and employee workforce that is knowledgeable and expert in many areas necessary for our operations. Skilled and experienced employees, managers and executives working in the homebuilding and construction industries are highly sought after, and we compete with other companies across all industries to attract and retain such persons. Our performance and success are dependent, in part, upon key members of our management and personnel, and their loss or departure could be detrimental to our future success. Further, the process of attracting and retaining suitable replacements for key personnel whose services we may lose would result in transition costs and would divert the attention of other members of our senior management from our existing operations. Competition for the services of these individuals would be expected to increase as business conditions improve in the homebuilding and financial services industries or in the general economy. In addition, we do not maintain key person insurance in respect of any members of our senior management team. Our inability to attract and retain key personnel or any of our

## Table of Contents

members of management, or ensure that their experience and knowledge are not lost when they leave the business through retirement or otherwise, could adversely impact our business, financial condition and operating results.

In addition, the vast majority of our work carried out on site is performed by subcontractors. In addition, reduced levels of homebuilding in the United States have led to some skilled tradesmen leaving the industry to take jobs in other sectors. If subcontractors are not able to recruit sufficient numbers of skilled employees, our development and construction activities may suffer from delays and quality issues, which would also lead to reduced levels of customer satisfaction.

Utility and resource shortages or rate fluctuations could have an adverse effect on our operations.

Several of the markets in which we operate have historically been subject to utility and resource shortages, including significant changes to the availability of electricity and water. Shortages of utility resources and natural resources in our markets, particularly of water, may make it more difficult for us to obtain regulatory approval of new developments and have other adverse implications.

For example, certain areas in which we operate, particularly the Western United States, have experienced and continue to experience severe drought conditions. In response to these conditions, government officials often take a number of steps to preserve potable water supplies. To address the state's mandate and their own available potable water supplies, local water agencies/suppliers could potentially: restrict, delay the issuance of, or proscribe new water connection permits for homes; increase the costs for securing such permits, either directly or by requiring participation in impact mitigation programs; adopt higher efficiency requirements for water-using appliances or fixtures; limit or ban the use of water for construction activities; impose requirements as to the types of allowed plant material or irrigation for outdoor landscaping that are more strict than state standards and less desired by consumers; and/or impose fines and penalties for noncompliance with any such measures. These local water agencies/suppliers could also increase rates and charges to residential users for the water they use, potentially increasing the cost of homeownership.

Any of the foregoing, individually or collectively, could adversely affect the regional economies in which we operate, which may limit, impair or delay our ability to acquire and develop land and/or build and deliver homes, increase our production costs or reduce demand for our homes, thereby negatively affecting our business and results of operations.

Constriction of the capital markets could limit our ability to access capital and increase our costs of capital.

We fund our operations from cash from operations, capital markets financings and borrowings under our Revolving Credit Facility and other loan facilities. Volatile economic conditions and the constriction of the capital markets could reduce the sources of liquidity available to us and increase our costs of capital. If the size or availability of our banking facilities is reduced in the future, or if we are unable to obtain new, or renew existing, facilities in the future on favorable terms or otherwise access the loan or capital markets, it would have an adverse effect on our liquidity and operations.

As of December 31, 2017, we had \$204.9 million of debt maturing in the next 12 months. We believe we can meet this and our other capital requirements with our existing cash resources and future cash flows and, if required, other sources of financing that we anticipate will be available to us. However, we can provide no assurance that we will continue to be able to do so, particularly if industry or economic conditions deteriorate. The future effects on our business, liquidity and financial results of these conditions could be adverse, both in the ways described above and in other ways that we do not currently foresee.

Our substantial debt could adversely affect our business, financial condition or results of operations and prevent us from fulfilling our debt-related obligations.

We have a substantial amount of debt. As of December 31, 2017, the total principal amount of our debt (including \$118.8 million of indebtedness of TMHF) was \$1.5 billion. Our substantial debt could have important consequences for the holders of our common stock, including:

- making it more difficult for us to satisfy our obligations with respect to our debt or to our trade or other creditors;
- increasing our vulnerability to adverse economic or industry conditions;
- limiting our ability to obtain additional financing to fund capital expenditures and land acquisitions, particularly when the availability of financing in the capital markets is limited;
- requiring us to pay higher interest rates upon refinancing or on our variable rate indebtedness if interest rates rise;
- requiring a substantial portion of our cash flows from operations and the proceeds of any capital markets offerings or loan borrowings for the payment of interest on our debt and reducing our ability to use our cash flows to fund working capital, capital expenditures, land acquisitions and general corporate requirements;

## Table of Contents

limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and  
placing us at a competitive disadvantage to less leveraged competitors.

We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us through capital markets financings or under our Revolving Credit Facility or otherwise in an amount sufficient to enable us to pay our indebtedness, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, on or before its maturity. We cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all. In addition, we may incur additional indebtedness in order to finance our operations, to fund acquisitions, or to repay existing indebtedness. If we cannot service our indebtedness, we may have to take actions such as selling assets, seeking additional debt or equity or reducing or delaying capital expenditures, strategic acquisitions, investments and alliances. We cannot assure you that any such actions, if necessary, could be effected on commercially reasonable terms or at all, or on terms that would be advantageous to our stockholders or on terms that would not require us to breach the terms and conditions of our existing or future debt agreements.

Restrictive covenants in the indenture governing our 2021 Senior Notes and the agreements governing our Revolving Credit Facility and other indebtedness may restrict our ability to pursue our business strategies.

The indenture governing our 2021 Senior Notes (as defined below) and the agreement governing our Revolving Credit Facility limit our ability, and the terms of any future indebtedness may prohibit or limit our ability, among other things, to:

- incur or guarantee additional indebtedness;
- make certain investments;
- repurchase equity or subordinated indebtedness;
- pay dividends or make distributions on our capital stock;
- sell assets, including capital stock of restricted subsidiaries;
- agree to restrictions on distributions, transfers or dividends affecting our restricted subsidiaries;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;
- enter into transactions with our affiliates;
- incur liens; and
- designate any of our subsidiaries as unrestricted subsidiaries.

The agreement governing the Revolving Credit Facility contains certain “springing” financial covenants requiring TMM Holdings and its subsidiaries to comply with a maximum capitalization ratio and a minimum consolidated tangible net worth test. The agreement governing the Revolving Credit Facility also contains customary restrictive covenants, including limitations on incurrence of liens, the payment of dividends and other distributions, asset dispositions, investments, sale and leasebacks and limitations on debt payments and amendments. See Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources in this Annual Report.

The restrictions contained in the indentures governing all of our Senior Notes and the agreement governing our Revolving Credit Facility could also limit our ability to plan for or react to market conditions, meet capital needs or make acquisitions or otherwise restrict our activities or business plans.

A breach of any of the restrictive covenants under the agreements governing our Revolving Credit Facility or any of our Senior Notes could allow for the acceleration of both the Revolving Credit Facility and the Senior Notes. If the indebtedness under our Revolving Credit Facility or the Senior Notes were to be accelerated, we cannot assure you that our assets would be sufficient to repay in full that indebtedness and our other indebtedness. See Item 7 -

Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources in this Annual Report.

We may require additional capital in the future and may not be able to secure adequate funds on terms acceptable to us.

The expansion and development of our business may require significant capital, which we may be unable to obtain, to fund our capital expenditures and operating expenses, including working capital needs. We may fail to generate sufficient cash flow from the sales of our homes and land or from other financing sources in order to meet our cash requirements. Further, our capital requirements may vary materially from those currently planned if, for example, our revenues do not reach, or our costs exceed, expected levels or we have to incur unforeseen capital expenditures to maintain our competitive position. If this is the case, we may require additional financing sooner than anticipated or we may have to delay or abandon some or all of our development and expansion plans or otherwise forego market opportunities.

## Table of Contents

To a large extent, our cash flow generation ability is subject to general economic, financial, competitive, legislative and regulatory factors and other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations in an amount sufficient to enable us to fund our liquidity needs. As a result, we may need to refinance all or a portion of our indebtedness, on or before its maturity, or obtain additional equity or debt financing. We cannot assure you that we will be able to do so on commercially reasonable terms, if at all. Any inability to generate sufficient cash flow, refinance our indebtedness or incur additional indebtedness on commercially reasonable terms could adversely affect our financial condition and could cause us to be unable to service our debt and may delay or prevent the expansion of our business.

### Risks related to our structure and organization

TMHC's only asset is its interest in TMM Holdings II Limited Partnership ("New TMM") and, accordingly, it is dependent upon distributions from New TMM to pay dividends, if any, taxes and other expenses. New TMM is a holding company with no operations of its own and, in turn, relies on distributions from TMM Holdings and its operating subsidiaries.

TMHC is a holding company and has no assets other than its ownership, directly or indirectly, of New TMM Units. TMHC has no independent means of generating revenue. TMHC intends to cause New TMM to make distributions to its partners in an amount sufficient to cover all applicable taxes payable and dividends, if any, declared by TMHC. To the extent that TMHC needs funds, and New TMM is restricted from making such distributions under applicable law or regulation, or is otherwise unable to provide such funds, it could materially and adversely affect TMHC's liquidity and financial condition. In addition, New TMM has no direct operations and derives all of its cash flow from TMM Holdings and its subsidiaries. Because the operations of TMHC's business are conducted through subsidiaries of TMM Holdings, New TMM is dependent on those entities for dividends and other payments to generate the funds necessary to meet the financial obligations of New TMM. Legal and contractual restrictions in the agreements governing the Revolving Credit Facility, certain of the Senior Notes and other debt agreements governing current and future indebtedness of New TMM's subsidiaries, as well as the financial condition and operating requirements of New TMM's subsidiaries, may limit TMHC's ability to obtain cash from New TMM's subsidiaries. The earnings from, or other available assets of, New TMM's subsidiaries may not be sufficient to pay dividends or make distributions or loans to TMHC to enable TMHC to pay any dividends on the Class A Common Stock, taxes and other expenses.

We are no longer a "controlled company" within the meaning of the corporate governance rules of the New York Stock Exchange, and we are subject to additional governance requirements under such rules.

A "controlled company" is a company of which more than 50% of the voting power for the election of directors is held by an individual, group or another company.

In May 2017, affiliates of TPG and Oaktree ceased to hold more than 50% of our voting power. As a result, we are subject to additional governance requirements under New York Stock Exchange rules, including the requirements to have (i) a majority of independent directors on our board of directors, (ii) a nominating and corporate governance committee that is composed entirely of independent directors, and (iii) a compensation committee that is composed entirely of independent directors. The New York Stock Exchange rules provide for phase-in periods for these requirements and we must be fully compliant with the new requirements prior to May 5, 2018.

During the transition period following our ceasing to be a "controlled company," holders of our Class A Common Stock may not have the same protection afforded to stockholders of companies that are subject to all of the corporate governance requirements of the New York Stock Exchange and the ability of our independent directors to influence our business policies and affairs may be reduced.

Failure to maintain effective internal control over financial reporting could have an adverse effect on our business, operating results and the trading price of our securities.

As a public company we are required to document and test our internal control procedures to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act and the related rules of the SEC, which require, among other things, our management to assess annually the effectiveness of our internal control over financial reporting and our independent registered public accounting firm to issue a report on our internal control over financial reporting. If our management is unable to certify the effectiveness of our internal controls or if our independent registered public accounting firm cannot render an opinion on management's assessment and on the effectiveness of our internal control over financial reporting, or if material weaknesses in our internal controls are identified, it could lead to material misstatements in our financial statements, we may be unable to meet our disclosure obligations and investors could lose confidence in our reported financial information. Failure to comply



## Table of Contents

with Section 404 of the Sarbanes-Oxley Act could potentially subject us to sanctions or investigations by the SEC, the Financial Industry Regulatory Authority or other regulatory authorities.

Provisions in our charter and bylaws and provisions of Delaware law may delay or prevent our acquisition by a third party, which might diminish the value of our Class A Common Stock. Provisions in our debt agreements may also require an acquirer to refinance our outstanding indebtedness if a change of control occurs.

Our amended and restated certificate of incorporation and our bylaws contain certain provisions that may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable, including the following:

- the division of our board of directors into three classes and the election of each class for three-year terms;
  - the sole ability of the board of directors to fill a vacancy created by the expansion of the board of directors;
  - advance notice requirements for stockholder proposals and director nominations;
  - limitations on the ability of stockholders to call special meetings and to take action by written consent;
- in certain cases, the approval of holders of at least three-fourths of the shares entitled to vote generally on the making, alteration, amendment or repeal of our certificate of incorporation or bylaws will be required to adopt, amend or repeal our bylaws, or amend or repeal certain provisions of our certificate of incorporation;
- the required approval of holders of at least three-fourths of the shares entitled to vote at an election of the directors to remove directors, which removal may only be for cause; and
- the ability of our board of directors to designate the terms of and issue new series of preferred stock without stockholder approval, which could be used, among other things, to institute a rights plan that would have the effect of significantly diluting the stock ownership of a potential hostile acquirer, likely preventing acquisitions that have not been approved by our board of directors.

Section 203 of the Delaware General Corporation Law may affect the ability of an “interested stockholder” to engage in certain business combinations for a period of three years following the time that the stockholder becomes an “interested stockholder.” We have elected in our amended and restated certificate of incorporation not to be subject to Section 203 of the Delaware General Corporation Law. Nevertheless, our amended and restated certificate of incorporation contains provisions that have the same effect as Section 203 of the Delaware General Corporation Law.

The existence of the foregoing provisions and anti-takeover measures could limit the price that investors might be willing to pay in the future for shares of our common stock. They could also deter potential acquirers of our company, thereby reducing the likelihood that you could receive a premium for your common stock in an acquisition.

Under our Revolving Credit Facility, a change of control would be an event of default, which would therefore require a third-party acquirer to obtain a facility to refinance any outstanding indebtedness under the Revolving Credit Facility. Under the indentures governing our Senior Notes, if a change of control were to occur, we would be required to make offers to repurchase the Senior Notes at prices equal to 101% of their respective principal amounts. These change of control provisions in our existing debt agreements may also delay or diminish the value of an acquisition by a third party.

Any of the above risks could have a material adverse effect on your investment in our Class A Common Stock and Senior Notes.

We indirectly own an interest in a controlled foreign corporation.

We own more than a 50% interest, measured by both vote and value, indirectly through New TMM and TMM Holdings, in a Canadian corporation. As a result, we expect that the Canadian corporation will be classified as a controlled foreign corporation (a “CFC”) for U.S. federal income tax purposes, and that we will be a “U.S. shareholder” of the Canadian corporation. Under U.S. federal income tax rules applicable to CFCs and their shareholders, in certain circumstances a U.S. shareholder of a CFC is required to include currently in its income its proportionate share of certain categories of the CFC’s current earnings and profits, regardless of whether any amounts are actually distributed by the CFC. As a result, there could be adverse tax consequences to us because the Canadian corporation is classified as a CFC.

Table of Contents

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease office facilities for our homebuilding and mortgage operations. We lease our corporate headquarters, which is located in Scottsdale, Arizona. The lease on this facility covers a space of approximately 27,000 square feet and expires in April 2023. We have approximately 35 other leases for our other division offices and design centers. For information on land owned and controlled by us for use in our homebuilding activities, please refer to Item 1 — Business — Business Strategy — Land and Development Strategies.

ITEM 3. 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 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## Market Information

The Company lists its Class A Common Stock on the New York Stock Exchange (NYSE) under the symbol "TMHC". On February 21, 2018, the Company had one holder of record of our Class A Common Stock. This does not include the number of stockholders who hold shares in TMHC through banks, brokers, and other financial institutions. The following table sets forth for the quarters indicated the range of high and low closing sales prices for the Company's Class A Common Stock:

Year Ended December 31, 2017				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	\$22.05	\$ 24.40	\$ 24.57	\$ 24.50
Low	18.65	21.00	19.83	22.21
Year Ended December 31, 2016				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	\$15.73	\$ 16.04	\$ 18.05	\$ 20.98
Low	11.30	13.54	14.65	16.57

The Company's Class B Common Stock is not listed on a securities exchange. On February 21, 2018 the Company had 25 holders of our Class B Common Stock. For details on the Class B Common Stock see Note 14 — Stockholders' Equity in the Notes to our Consolidated Financial Statements included in Item 8 of this Annual Report. See Note 23 - Subsequent Events for changes to ownership subsequent to December 31, 2017.

## Stock Performance Graph

The following shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or incorporated by reference into any of our other filings under the Exchange Act or the Securities Act, except to the extent we specifically incorporate it by reference into such filing.

This chart compares the cumulative total return on our Class A Common Stock with that of the Standard & Poor's 500 Composite Stock Index (the "S&P 500") and the Standard & Poor's Homebuilding Index (the "S&P Homebuilding Index"). The chart assumes \$100.00 was invested at the close of market on April 10, 2013 (the date our Class A Common Stock began trading on the NYSE), in the Class A Common Stock of Taylor Morrison Home Corporation, the S&P 500 Index and the S&P Homebuilding Index, and assumes the reinvestment of any dividends. The stock price performance on the following graph is not necessarily indicative of future stock price performance.



Table of Contents

Comparison of Cumulative Total Return Among TMHC, the S&P 500 and the S&P Homebuilding Index from April 10, 2013 to December 31, 2017

	4/10/2013	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
TMHC	\$ 100.00	\$ 97.44	\$ 81.99	\$ 69.44	\$ 83.59	\$ 106.21
S&P 500	100.00	116.42	129.68	128.73	141.01	168.39
S&P Homebuilding Index	100.00	113.15	116.13	116.06	114.94	150.29

Dividends

We currently anticipate that we will retain all available funds for use in the operation and expansion of our business, and do not anticipate paying any cash dividends in the foreseeable future or making distributions from New TMM to its limited partners (other than to TMHC to fund its operations). See Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations. TMHC has not previously declared or paid any cash dividends on its common stock.

Any future determination to declare and pay dividends will be made at the discretion of the Board of Directors of TMHC and will depend upon many factors, including statutory requirements, the covenants governing our Revolving Credit Facility and certain of our Senior Notes that limit our ability to pay dividends to stockholders and other factors the Board of Directors of TMHC deems relevant. For further information, see Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Debt Instruments.

Issuer Purchases of Equity Securities

Our Board of Directors has authorized the repurchase of up to \$100.0 million of the Company’s Class A Common Stock through December 31, 2018 in open market purchases, privately negotiated transactions or other transactions. The stock repurchase program is subject to prevailing market conditions and other considerations, including our liquidity, the terms of our debt instruments, statutory requirements, planned land investment and development spending, acquisition and other investment opportunities and ongoing capital requirements. During the three months ended December 31, 2017, there were no shares of Class A Common Stock repurchased by us or on our behalf.

ITEM 6. SELECTED FINANCIAL DATA

Table of Contents

The following tables set forth selected consolidated financial and operating data at and for each of the five fiscal years ending December 31, 2017. It should be read in conjunction with the Consolidated Financial Statements and Notes thereto, included in Item 8 of this Annual Report and Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of this Annual Report.

	Year Ended December 31,		
(Dollars in thousands, except per share amounts)	2017	2016	2015

	Year Ended December 31,		
(Dollars in thousands, except per share amounts)	2017	2016	2015
			2014