Taylor Morrison Home Corp
Form 10-K
February 24, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2013

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 incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

(Address of principal executive offices) (Zip Code)

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 x

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 x

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 x 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 x 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. x

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

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant on June 28, 2013 was $801,295,022, 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 24, 2014:

Class	**Outstanding**
Class A Common Stock, $0.00001 par value	32,857,800
Class B Common Stock, $0.00001 par value	89,451,164

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 2014 annual meeting of shareholders to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant s fiscal year.

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TAYLOR MORRISON HOME CORPORATION AND SUBSIDIARIES

(CONSOLIDATED AND COMBINED WITH TMM HOLDINGS LIMITED PARTNERSHIP AND SUBSIDIARIES)

FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2013

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

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Available Information

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

In this Annual Report, unless the context requires otherwise, references to the Company, we, us, or our are to Taylor Morrison Home Corporation (TMHC) and its subsidiaries and references to Predecessor are to the North American business of Taylor Wimpey plc, Predecessor Parent Company .

Including our predecessors, we commenced homebuilding operations in 1936. The July 2007 merger between Taylor Woodrow plc and George Wimpey plc, two UK-based, publicly listed homebuilders, resulted in the formation of Taylor Wimpey plc, and the subsequent integration of Taylor Woodrow Holdings (USA), Inc. and Morrison Homes, Inc. in the U.S. resulting in Taylor Morrison Communities, Inc. (Taylor Morrison Communities , Taylor Morrison or TMC), and Monarch Corporation (Monarch) in Canada. 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 any discussion of future operating or financial performance. As you read this Annual Report and other reports or public statements, you should understand that these statements are not guarantees of performance or results. They involve known and unknown risks, uncertainties and assumptions, including those described under the heading Risk Factors in Part I, Item 1A. and elsewhere in this Annual Report. Although we believe that these forward-looking statements are based upon reasonable assumptions, you should be aware that many factors, including those described under the heading Risk Factors in Part I, Item 1A. and elsewhere in this Annual Report, could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements.

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

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PART I

ITEM 1. BUSINESS

Overview of Taylor Morrison Home Corporation

We are one of the largest public homebuilders in North America. Headquartered in Scottsdale, Arizona, we build single-family detached and attached homes and develop land, which includes lifestyle and master-planned communities. We are proud of our legacy of nearly 80 years in the homebuilding industry, having originally commenced homebuilding operations in 1936. We operate under our Taylor Morrison and Darling Homes brands in the U.S. and under our Monarch brand in Canada.

Our business has twelve homebuilding operating divisions, which are combined into three reportable segments: East, West and Canada, which segments accounted for 58%, 31% and 11%, respectively, of our net sales orders (excluding unconsolidated joint ventures) for the year ended December 31, 2013.

Our reportable homebuilding segments have operations in:

East:	Houston (which includes a Taylor Morrison division and a Darling Homes division), Austin, Dallas (which includes a Darling Homes division only), North Florida and West Florida.
West:	Phoenix, Northern California, Southern California and Denver.
Canada:	Kitchener-Waterloo, Ottawa, Toronto.

In all of our markets, we build and sell a broad and innovative mix of homes across a wide range of price points. Our emphasis is on designing, building and selling homes to move-up buyers. We are well positioned in our markets with a top-10 market share (based on 2013 home closings as reported by Hanley Wood and Metrostudy and 2013 home sales as reported by Real Net Canada, Inc.) in 14 of our 19 markets. A market is defined as an individual metropolitan area, and we could have multiple markets within each division.

All of the divisions in our East and West segments offer single-family attached and/or detached homes and generally operate as merchant builders. Merchant builders generally acquire fully planned and entitled lots and may construct on-site improvements but normally do not construct significant off-site utility or infrastructure improvements. In certain markets we also operate as community developers. Community development includes the acquisition and development of large-scale communities that may include significant planning and entitlement approvals and construction of off-site and on-site utilities and infrastructure. Our Canada segment consists of our operations within the province of Ontario, primarily in the Greater Toronto Area (GTA) and also in Ottawa and Kitchener-Waterloo, and offers both single-family and high-rise communities.

Mortgage Operations is also a separate reportable segment of our business. Our Mortgage Operations reportable segment provides financial services to customers in the U.S. through its wholly owned mortgage brokerage subsidiary, operating as Taylor Morrison Home Funding, LLC (TMHF), and title examination services in some U.S. locations through various joint ventures.

We believe our business is distinguished by:

our strong historical financial performance and margins;

our strong balance sheet with liquidity available for growth;

our attractively located land inventory carried at a low cost basis;

our strong presence in high-growth homebuilding markets;

our profitable Monarch business in Ontario;

our expertise delivering lifestyle communities targeted at move-up buyers; and

our deep knowledge of our homebuyer customer base and our reputation for quality.

For financial information about our segments, see *Item 7   Management s Discussion and Analysis of Financial Condition and Results of Operations*, of this Annual Report, and the accompanying Consolidated and Combined Financial Statements and Notes thereto in Item 8 of this Annual Report.

Industry Overview and Current Market Developments

Housing Industry Conditions within the U.S.

We believe that a fundamental housing recovery is underway on a national basis, driven by consumers who are increasingly optimistic about their economic prospects and is supported by several positive economic and demographic factors, including decreasing unemployment, increasing home values, improving household balance sheets, declines in new and existing for-sale home inventory, and low interest rates supporting affordability and home ownership. While we were encouraged by the positive and improved trends of 2013, several challenges still exist that may impact the speed of the recovery, such as lingering unemployment concerns, national and global economic uncertainty and a continuing restrictive mortgage lending environment. We are additionally challenged by shortages in the labor supply, specifically as it relates to qualified tradespeople. However, we believe we are in an upward business cycle in most of our markets as the ability to deliver homes to prospective buyers   still lags behind demand and the availability of new and pre-owned homes remains constrained.

Housing Industry Conditions within Ontario, Canada

The Canadian housing market has been more stable than the U.S. housing market over the past five years but has moderated during 2013 as the U.S. housing recovery has strengthened. The recent strength and consistency of the Canadian housing market, particularly in Ontario where we operate, is largely a result of low interest rates and steady home growth in demand due to continuing job growth and immigration-driven population growth. The Canadian housing market has generally been characterized by a stable level of housing starts, a balanced sales-to-listings ratio and steady long-term growth in housing prices. In addition, Canadian home buying practices reflect a number of structural, mortgage lending, legal and general market characteristics that have allowed the Canadian housing market to grow at a sustainable pace and to experience significantly lower mortgage default rates over the past decade as compared to the U.S.

In Canada, almost all mortgages are   full recourse   loans, meaning that the borrower remains responsible for the mortgage even in the case of a mortgage completion by the lender. The laws of most Canadian jurisdictions permit home mortgage lenders to seek to apply all other assets of the borrower against the mortgage and even to garnish future earnings of the borrower in the event of default. In contrast, many mortgages in the U.S. are   limited recourse which provide for more limited remedies.

For information and analysis of recent trends in our operations and financial condition, see *Item 7   Management s Discussion and Analysis of Financial Condition and Results of Operations* of this Annual Report, and for financial information about our results of operations, assets, liabilities, stockholders   equity and cash flows, see the accompanying Consolidated and Combined Financial Statements and Notes thereto in Item 8 of this Annual Report.

Strategy

During the economic downturn, we maintained our core business strategy of focusing on move-up buyers, whereas we observed that many homebuilders refocused their businesses on lower-priced homes. We believe our experience in the move-up market allows us to significantly expand our new home offerings at higher price points. Our average price of homes closed was $389,000 for the year ended December 31, 2013. Historically, our average selling price has ranked

us among the top quartile in this category of the public homebuilders. We believe homebuyers at these higher price points are more likely to value and pay for the quality of lifestyle and construction for which we are known, and that they are more insulated from market volatility. We believe our long land position, in what we believe are highly desirable submarkets, and strength of our land pipeline have positioned the Company for growth and increased profitability in an improving housing market through disciplined execution of the following elements of our strategy:

- Drive revenue by opening new communities from existing land supply;

- Combine land acquisition and development expertise with homebuilding operations to maximize profitability;

Focus our offerings on targeted customer groups;

Build aspirational homes for our customers and deliver superior customer service;

Maintain a strong capital structure;

Selectively pursue acquisitions;

Adhere to consistent core operating principles to drive long-term performance; and

Ensure we have the best available team by hiring and retaining top talent, expecting top level performance and allocating proper resources to drive execution of our business plan.

2011 Acquisition by our Principal Equityholders

In July 2011, affiliates of TPG Global, LLC (TPG), Oaktree Capital Management, L.P. (Oaktree) and JH Investments Inc. (JH , and, together with TPG and Oaktree, the Principal Equityholders), used TMM Holdings Limited Partnership (TMM Holdings) to acquire TMC and Monarch from U.K. based Taylor Wimpey plc for aggregate cash consideration of approximately $1.2 billion (the Acquisition).

The Acquisition was financed in part by a $620.3 million cash equity contribution (the Equity Contribution) by the Principal Equityholders and a $625 million senior unsecured credit facility with affiliates of TPG and Oaktree, consisting of a $500 million bridge loan facility and a $125 million incremental bridge loan facility (collectively, the Sponsor Loan). We repaid the $125 million bridge facility in August 2011 and repaid $350 million of the Sponsor Loan in April 2012 with a portion of the proceeds of the issuance of $550 million of 7.75% Senior Notes due 2020 (the 2020 Senior Notes). The affiliates of TPG and Oaktree who were lenders under the Sponsor Loan caused the then remaining $150.0 million of the Sponsor Loan to be acquired by a subsidiary of TMM Holdings, and affiliates of TPG and Oaktree acquired an additional $150.0 million of limited partnership interests in TMM Holdings.

Recent Developments

Initial Public Offering

On April 12, 2013, TMHC completed its initial public offering (the IPO) of 32,857,800 shares of its Class A Common Stock, par value $0.00001 per share (the Class A Common Stock), including 4,285,800 shares of Class A Common Stock sold in connection with the full exercise of the option to purchase additional shares granted to the underwriters, at a price to the public of $22.00 per share. The shares began trading on the New York Stock Exchange on April 10, 2013 under the ticker symbol TMHC. As a result of the completion of the IPO and the Reorganization Transactions (as defined below), TMHC became the indirect parent of TMM Holdings, the entity at which we previously consolidated our financial statements.

Reorganization Transactions

In connection with the IPO, TMHC completed a series of transactions on April 9, 2013 (the Reorganization Transactions) pursuant to a Reorganization Agreement dated as of April 9, 2013 (the Reorganization Agreement) among TMHC, TMM Holdings II Limited Partnership (New TMM), other subsidiaries of TMHC, affiliates of the Principal Equityholders, certain members of TMHC s management and its Board of Directors (the Board), TPG TMM Holdings II, L.P. (the TPG Holding Vehicle), OCM TMM Holdings II, L.P. (the Oaktree Holding Vehicle and, together with the TPG Holding Vehicle, the TPG and Oaktree Holding Vehicles) and TMM Holdings. The Reorganization Agreement governs the terms of the Reorganization Transactions, which are described in TMHC s Registration Statement on Form S-1 (File No. 333-185269), which was declared effective by the SEC on April 9, 2013 (the Registration Statement).

In the Reorganization Transactions, the existing holders of limited partnership interests in TMM Holdings, including the Principal Equityholders and certain members of TMHC s management and Board, through a series of transactions, contributed their limited partnership interests in TMM Holdings to a new limited partnership, New TMM, such that TMM Holdings and the general partner of TMM Holdings became wholly-owned subsidiaries of New TMM. TMHC, through a series of transactions, became the sole owner of the general partner of New TMM, and TMHC used a portion of the net cash proceeds received in the IPO to purchase common partnership units in New TMM (New TMM Units) from New TMM.

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In the Reorganization Transactions:

- TPG and Oaktree each formed the TPG Holding Vehicle and the Oaktree Holding Vehicle, respectively;
- The Principal Equityholders and members of TMHC s management and Board directly or indirectly exchanged all of their respective Class A Units, Class J Units and performance-vesting Class M Units in TMM Holdings on a one-for-one basis for new equity interests of the TPG and Oaktree Holding Vehicles with terms that are substantially the same as the Class A Units (other than certain Class A Units exchanged by JH as described below), Class J Units (other than with respect to certain vesting conditions) and performance-vesting Class M Units in TMM Holdings surrendered for exchange;
- JH exchanged a portion of its Class A Units in TMM Holdings for New TMM Units to be held by JH;
- Members of TMHC s management and Board exchanged all of their time-vesting Class M Units in TMM Holdings for New TMM Units with vesting terms that are substantially the same as those of the Class M Units surrendered for exchange;
- New TMM directly or indirectly acquired all of the Class A Units, Class J Units and Class M Units in TMM Holdings outstanding prior to the Reorganization Transactions; and
- The TPG and Oaktree Holding Vehicles directly or indirectly acquired New TMM Units.

Immediately following the consummation of the Reorganization Transactions, the limited partners of New TMM consisted of TMHC, the TPG Holding Vehicle, the Oaktree Holding Vehicle, JH and certain members of TMHC s management and Board. The number of New TMM Units issued to each of the TPG and Oaktree Holding Vehicles, JH and members of TMHC s management and Board, as described above, was determined based on a hypothetical cash distribution by TMM Holdings of TMHC s pre-IPO value to the holders of Class A Units, Class J Units and Class M Units of TMM Holdings, the IPO price and the price per share paid by the underwriters for shares of Class A Common Stock in the IPO.

In connection with the Reorganization Transactions, the TPG and Oaktree Holding Vehicles, JH and members of TMHC s management and Board were also issued a number of shares of TMHC s Class B Common Stock, par value $0.00001 per share (the Class B Common Stock) equal to the number of New TMM Units that each received. One share of Class B Common Stock, together with one New TMM Unit is exchangeable into one share of Class A Common Stock.

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

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

Use of Proceeds of the IPO

Net proceeds from the sale of 32,857,800 shares of Class A Common Stock in the IPO were approximately $668.6 million after deducting underwriting discounts and commissions and offering expenses.

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TMHC used $204.2 million of the net proceeds of the IPO to acquire New TMM Units from New TMM (at a price equal to the price paid by the underwriters for shares of Class A Common Stock in the IPO). New TMM contributed such net proceeds to TMM Holdings, which then contributed such proceeds to TMC and Monarch Communities (collectively the Bond Co-Issuers) to redeem $189.6 million aggregate principal amount of our 2020 Senior Notes (at a purchase price equal to 103.875% of their principal amount, plus accrued and unpaid interest of $7.3 million through the April 12, 2013 redemption date). The remaining approximately $464.4 million of the net proceeds from the IPO, together with $18.1 million of cash on hand was used to purchase 23,333,800 New TMM Units (at a price equal to the price paid by the underwriters for shares of TMHC s Class A Common Stock) held by the TPG and Oaktree Holding Vehicles, JH and certain members of TMHC s management and Board. A summary of the use of the IPO proceeds follows (in thousands):

	Use of Proceeds
Proceeds from sale of Class A Common Stock	$ 722,872
Underwriting discounts and commissions	(43,372)
Offering expenses	(10,902)
Net proceeds	$ 668,598
Principal and premium payment on 2020 Senior Notes	(204,180)
Purchase of New TMM Units and corresponding shares of Class B Common Stock	(482,543)
Cash on hand	18,125
	$

Because TMHC purchased New TMM Units at a valuation in excess of the proportion of the book value of net assets acquired, TMHC incurred an immediate dilution of $297.6 million, which is calculated as the net proceeds used by TMHC to purchase New TMM Units of $668.6 million less the book value of such interests of $371.0 million. This dilution is reflected within TMHC s additional paid in capital (APIC) as a reallocation from APIC to non-controlling interests Principal Equityholders in the accompanying Consolidated and Combined Statement of Shareholders Equity.

Impact to Quarterly Information Previously Filed The previously filed Consolidated Statements of Stockholders Equity for the six and nine months ended June 30, 2013 and September 30, 2013 did not reflect the $297.6 million re-allocation between APIC and non-controlling interest Principal Equityholders. The impact of this error to the previously issued financial statements is a decrease in APIC and a corresponding equivalent increase to non-controlling interest Principal Equityholders of $297.6 million for both periods. There would be no impact on the total balance of equity, share counts or previously reported earnings per share and it is not material to our previously issued consolidated financial statements.

Restated Revolving Credit Facility

Concurrently with the Acquisition in July 2011, TMC and Monarch (the Original Revolver Co-Borrowers), entered into a senior secured revolving credit facility with a syndicate of third party banks and financial institutions, with an aggregate committed principal amount of $75.0 million (as amended and restated as of April 13, 2012, the Original Revolving Credit Facility). On August 15, 2012, we utilized the $50.0 million incremental facility feature under the Original Revolving Credit Facility to increase the revolving credit commitments from $75.0 million to $125.0 million.

On December 27, 2012, we further amended the Original Revolving Credit Facility to provide for $225.0 million in aggregate revolving credit commitments.

On April 12, 2013, the Original Revolver Co-Borrowers entered into an amendment agreement (the Amendment) to the Original Revolving Credit Facility (as amended and restated by the Amendment and the January 2014 amendment described below, the Restated Revolving Credit Facility). The Restated Revolving Credit Facility, among other things, converted the Original Revolving Credit Facility into an unsecured facility and increased the aggregate revolving credit commitments under the facility to $400.0 million.

On January 15, 2014, the Original Revolver Co-Borrowers amended the Restated Revolving Credit Facility to remove Monarch as co-borrower. The overall borrowing capacity and terms were otherwise unchanged. As a result of the

Amendment, TMC is now the sole borrower under the Restated Revolving Credit Facility. See *Note 19 Subsequent Events* of the Notes to the Consolidated and Combined Financial Statements in Item 8 of this Annual Report.

We had no outstanding borrowings under the Restated Revolving Credit Facility at December 31, 2013 and $50.0 million outstanding at December 31, 2012. As of December 31, 2013, we had $373.5 million of additional availability for borrowings and $173.5 million of additional availability for letters of credit (giving effect to $26.5 million of letters of credit outstanding as of such date). For more information regarding the Restated Revolving Credit Facility, see *Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Overview of Capital Resources and Liquidity Capital Resources Original Revolving Credit Facility and Restated Revolving Credit Facility* in this Annual Report.

2021 Senior Notes

On April 16, 2013, the Bond Co-Issuers completed the issuance of $550.0 million aggregate principal amount of 5.25% Senior Notes due 2021 (the 2021 Senior Notes and together with the 2020 Senior Notes, the Senior Notes). We used the net proceeds from the issuance of the 2021 Senior Notes to repay the outstanding balance under the Restated Revolving Credit Facility and for general corporate purposes, including the purchase of additional land inventory. For more information regarding the 2021 Senior Notes, see *Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Overview of Capital Resources and Liquidity Capital Resources 2021 Senior Notes* in this Annual Report.

Darling Acquisition

On December 31, 2012, we acquired certain assets and liabilities of Darling Interests, Inc., a Texas-based homebuilder, and certain affiliated entities (collectively, Darling or the Darling Acquisition). Darling builds homes under the Darling Homes brand for move-up and luxury buyers in the Dallas-Fort Worth Metroplex and in the Greater Houston Area markets. Darling is a well-established builder whose products complement our existing product lines in Texas. The acquisition of Darling has given us a strong presence in the Dallas homebuilding market and has expanded our existing operations in Houston.

The consideration for the acquisition of the Darling assets was $114.8 million as well as a contingent payment of $50.0 million, plus 5% of any cumulative earnings before interest and taxes above $229.5 million over the four year period following December 31, 2012. A portion of this amount was financed by $50.0 million of borrowings under our Original Revolving Credit Facility. Approximately $27.6 million of the price for the acquisition was financed by the sellers. In connection with the purchase price allocation for the acquisition, we recorded $23.4 million of goodwill and $9.9 million of intangible assets with finite useful lives. Additionally, we incurred $1.8 million of transaction costs which were recorded as other expense (income), net in 2012 in our Consolidated and Combined Statements of Operations. Darling operates as part of our East segment, and the goodwill recorded as part of the Darling Acquisition has been recorded in the balance sheet for the East segment and is included in our Consolidated and Combined Balance Sheets.

Exchange of Class J Units in TMM Holdings

In connection with the Acquisition in July 2011, JH received an aggregate of 60,531,998 Class J Units in TMM Holdings (made up of J-1 Units, J-2 Units and J-3 Units). Class J Units in TMM Holdings were issued in consideration of JH s service to TMM Holdings and were subject to both time and performance-based vesting conditions. At the completion of the Acquisition, TMM Holdings and JH entered into the JHI Services Agreement.

Satisfaction of the time-vesting condition required the JHI Services Agreement to be in effect as of the date each annual installment vests. The service conditions set forth in the JHI Services Agreement were to lapse after a period of five years.

In the Reorganization Transactions, the TMM Holdings Class J Units tied to TPG s returns were exchanged for Class J Units of the TPG Holding Vehicle, and the TMM Holdings Class J Units tied to Oaktree s returns were exchanged for Class J Units of the Oaktree Holding Vehicle, in each case with substantially equivalent performance vesting and distribution terms but no future service conditions. J-1 Units, J-2 Units and J-3 Units of the TPG and Oaktree Holding

Vehicles will generally vest when the applicable sponsor, TPG or Oaktree, has achieved an internal rate of return (in cash) on its aggregate capital contribution of 10%, 15%, or 15% plus a 1.0x, 1.0x or 2.0x return of capital, respectively. These rates of return were generally similar to those in the Class J Units in TMM Holdings that were replaced.

As a result of the completion of the Reorganization Transactions and the IPO, no Class J Units are part of the equity structure of TMHC or New TMM. The JHI Services Agreement has been terminated and will not be replaced. The termination of the JHI Services Agreement in connection with the exchange was a modification of the Class J Units under ASC Topic 718-20-35-3, requiring the recognition of an $80.2 million non-cash charge in our Consolidated and Combined Statements of Operations in indemnification and transaction expenses. This non-cash charge is non-recurring and was recorded as an expense and as an offset in the non-controlling interests of TMM Holdings. The amount of the charge represents the fair value of the Class J Units on the date of modification. The fair value of the Class J Units at the date of modification has been estimated using a Black-Scholes model with the following key assumptions: (1) volatility of 40%, based on a comparable peer set of companies, which includes Standard Pacific Corp., Lennar Corporation, Ryland Group Inc., KB Home, PulteGroup Inc., Hovnanian Enterprises Inc., Beazer Homes USA Inc., Meritage Homes Corporation, M/I Homes, Inc., and DR Horton, Inc.; (2) a risk free rate of 0.4%, based on U.S. Treasuries with a like term; (3) an expected life of three years; (4) a 20% discount for lack of marketability to account for the illiquidity of the Class J Units in TMM Holdings and the Class J Units in the TPG and Oaktree Holding Vehicles being issued in exchange as well as the impact of the performance conditions (the requirement to realize the return on capital of TPG and Oaktree at the applicable thresholds) still to be met as of the date of the modification, based on both quantitative and qualitative factors; and (5) a hypothetical cash distribution by TMM Holdings of TMM Holdings pre-IPO value to the holders of Class A Units, Class J Units and Class M Units of TMM Holdings based on the price per share paid by the underwriters for shares of TMHC s Class A Common Stock in the IPO on the assumption that the performance conditions applicable to the Class J Units in TMM (the requirement to realize the return on capital of TPG and Oaktree at the applicable thresholds) had been met as of the date of the IPO.

Homebuilding Operations

We focus on developing lifestyle communities, which have many distinguishing attributes, including proximity to job centers, strong school systems and a variety of amenities. Within our communities, we offer a range of award-winning designs through our single-family detached, single-family attached and high-rise condominium products. We engineer our homes for energy-efficiency, cost savings and comfort to reduce the impact on the environment while decreasing our homebuyers annual operating costs. Although we target move-up buyers, our portfolio also includes high quality homes aimed at entry-level, luxury and active adult buyers.

We strive to maintain appropriate consumer product and price level diversification. We target the largest and most profitable consumer groups while ensuring the divisional portfolios are not overly concentrated in any one group. Our ability to build at multiple price points enables us to adjust readily to changing consumer preferences and affordability. We also use measures of market specific supply and demand to determine which consumer groups are ultimately targeted and will be the most profitable in a specific land position.

We market single-family homes with many amenities to entry-level through move-up homebuyers. We believe that our reputation as a builder of homes for move-up buyers enhances our competitive position with respect to the sale of our smaller, more moderately priced single-family detached and attached homes enabling us to capture more margin.

We have developed a number of home designs with features such as single-story living, split bedroom plans and first floor master bedroom suites to appeal to universal design needs, as well as communities with recreational amenities such as golf courses, pool complexes, country clubs and recreation centers. We have integrated these designs and

features in many of our homes and communities.

We offer some of the same basic home designs in similar communities and engage unaffiliated architectural firms and internal architectural resources to develop new designs to replace or augment existing plans in order to ensure that our homes reflect current and local consumer tastes. During the past year, we introduced 118 new single-family detached and attached floor plans.

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A summary of homebuilding activity by segment as of and for the year ended December 31, 2013 is as follows:

(Dollars in thousands)

	Year Ended December 31, 2013			At December 31, 2013		
	Homes Closed	Average Selling Price of Closed Homes	Homes Sold	Number of Active Selling Communities	Homes in Backlog	$ Value of Backlog
East	2,913	$ 376	3,255	130	1,544	$ 667,725
West	1,803	423	1,763	48	622	320,029
Subtotal U.S.	4,716	$ 394	5,018	178	2,166	$ 987,754
Canada	1,113	366	596	16	822	259,352
Subtotal North America	5,829	$ 389	5,614	194	2,988	$ 1,247,106
Unconsolidated joint ventures	441	301	83	3	548	195,979
Total	6,270	$ 382	5,697	197	3,536	$ 1,443,085

We believe that during 2014 we will deliver to customers substantially all homes in backlog at December 31, 2013 under existing or, in the case of cancellations, replacement sales contracts.

Land Acquisition Policies and Development

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

	Owned Lots December 31, 2013					Controlled Lots December 31, 2013				
	Raw	Partially developed	Finished	Long-term strategic assets	Total	Raw	Partially developed	Finished	Total	Total owned & controlled lots
East	8,768	6,110	4,368	1,922	21,168	7,028	876	901	8,805	29,973

West	2,818	2,721	2,849	1,807	10,195	1,897	121	45	2,063	12,258
Subtotal U.S.	11,586	8,831	7,217	3,729	31,363	8,925	997	946	10,868	42,231
Canada	1,064	959	342		2,365	200		575	775	3,140
Subtotal North America	12,650	9,790	7,559	3,729	33,728	9,125	997	1,521	11,643	45,371
Unconsolidated joint ventures [1]	1,332	1,038			2,370		468		468	2,838
Total	13,982	10,828	7,559	3,729	36,098	9,125	1,465	1,521	12,111	48,209

(1) Single-family joint ventures and high-rise joint ventures owned and controlled lots are comprised of our proportionate share of lots within consolidated joint ventures.

Lot Development Status

(Dollars in thousands)	As of December 31, 2013		
Development Status	Owned Lots (1)		Book Value of Land and Development
Raw	13,982	$	425,759
Partially developed	10,828		516,492
Finished	7,559		732,015
Long-term strategic assets	3,729		27,988
Total	36,098	$	1,702,254

(1) Includes 2,370 lots which are held within consolidated joint ventures.

In North America, many builders buy finished lots from a land developer. This approach reduces the margin available and makes planning difficult when competition for finished lots is particularly high. We are less dependent on this approach, having a well-established land development business in several of our markets, which we believe allows us to generate higher margins.

Lot Vintage

(Dollars in thousands)	As of December 31, 2013								
Year Acquired	**East**	**West**	**Subtotal U.S.**	**Canada**	**Subtotal North America**	**Unconsolidated Joint Ventures**	**Total Owned Lots**	**Book Value of Land and Development**	**Dollar % of Total**
Pre-2008	4,216	2,734	6,950	1,620	8,570	1,225	9,795	$ 144,711	8.5%
2008	320	165	485		485	210	695	5,258	0.3
2009	419	1,603	2,022		2,022		2,022	60,519	3.6
2010	2,105	49	2,154	10	2,164	174	2,338	34,259	2.0
2011	1,245	664	1,909	238	2,147	201	2,348	120,009	7.1
2012	6,014	2,551	8,565	85	8,650		8,650	540,057	31.7
2013	6,849	2,429	9,278	412	9,690	560	10,250	797,441	46.8
Total	21,168	10,195	31,363	2,365	33,728	2,370	36,098	$ 1,702,254	100.0%

In the land purchasing process, specific projects of interest are detailed by the local division team, including proposed ownership structure, environmental concerns, anticipated product segmentation, competitive environment and financial returns. We also determine whether further spending on currently owned and controlled land is a well-timed and appropriate use of capital. As market circumstances change, we evaluate whether communities that have been put on hold will be resumed. In all circumstances, our investment strategy emphasizes expected profitability to reflect the risk and timing of returns, rather than the establishment or maintenance of sales volumes in new or existing markets.

Community Development

We aim to establish a complete concept for each community we develop, beginning with an overall community design and then determining the size, style and price range of the homes and the layout of the streets and individual home sites. In the case of developed communities, after necessary governmental subdivision and other approvals have been obtained, we improve the land by clearing and grading, installing roads, underground utility lines and recreational amenities, erecting distinctive entrance structures and staking out individual home sites.

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

Our construction, land and purchasing managers coordinate subcontracting services and supervise all aspects of construction work and quality control. We are a general contractor for all of our homebuilding projects in the U.S. and all of our projects in Canada. Subcontractors perform all home construction and land development work, generally under

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

Procurement and Construction

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

The program currently involves over 40 vendors and includes highly reputable and well-established companies who supply us with lumber, appliances, HVAC systems, insulation, shingles, paint and lighting, among other supplies. Through these relationships, we are able to realize discounts on the costs of essential materials. Contracts are typically structured to include a blend of attractive upfront pricing and rebates and, in some cases, advantageous retroactive pricing in instances of contract renewals. The program arrangements are typically not designed to be completely exclusive in nature; for example, divisions may choose to use local or alternate suppliers if they find cost savings by doing so. However, our divisions have historically made use of over 80% of our national procurement contracts, largely as a result of the advantageous pricing available under such contracts.

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

Sources and Availability of Raw Materials

Based on local market practices, we either directly or 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 serious material shortages on a localized basis, particularly during periods where the regions in which we operate experience natural disasters that have a significant impact on existing residential and commercial structures and during periods of robust construction activity when there is high demand for new homes. During these periods, the prices for these materials can substantially increase and our construction process can be slowed. We generally have multiple sources for the materials we purchase and have not experienced significant delays due to unavailability of necessary materials.

Homes in Inventory

We manage our inventory of homes under construction by selectively starting construction on unsold homes to capture new home demand, while monitoring the number and aging of unsold homes. As of December 31, 2013, we had a total of 4,206 homes in inventory, which included 2,988 homes under contract but not yet closed.

The following is a summary of our homes in inventory by segment as of December 31, 2013:

(Dollars in thousands)	**Models**	**Total**

	Sold Homes in Backlog[1]		**Inventory to be Sold**		**Inventory Value without Land**
East	1,544	130	445	2,119	$ 216,622
West	622	122	435	1,179	154,766
Subtotal U.S.	2,166	252	880	3,298	$ 371,388
Canada [2]	822	23	63	908	82,999
Total	2,988	275	943	4,206	$ 454,387

(1) Includes homes sold but not yet started

(2) Does not include unconsolidated joint ventures.

A significant portion of our Canada homes in inventory relate to our High-Rise division. The following table summarizes the size and status of the active projects of our High-Rise division, as of December 31, 2013:

	Ultra	Yorkland	Garden Court	Couture	Water-scapes	Encore	Lago	Picasso
Ownership by Monarch Corporation	100.0%	100.0%	100.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Units in the project	423	402	186	476	344	403	436	401
Total firm offers as of Dec. 31, 2013	422	399	170	474	335	400	378	367
Percentage sold	99.8%	99.3%	91.4%	99.6%	97.4%	99.3%	86.7%	91.5%
Launch date	May 08	Apr. 10	Oct. 11	Oct. 07	Sep. 08	Feb. 10	Jun. 11	Nov. 11
	Actual	Expected	Expected	Actual	Expected	Actual	Expected	Expected
Occupancy	May 13	Jun. 14	Sep. 14	Mar. 13	Jun. 14	Sep. 13	Sep. 16	Jun. 16

The table above does not include data for projects where selling efforts have commenced but financial viability has yet to be achieved.

Warranty Program

U.S. Operations We offer warranties on homes that generally provide for limited one-year warranties to cover various defects in workmanship or materials or to cover structural construction defects. We may also offer a longer structural warranty in certain markets or to comply with regulatory requirements. Warranty reserves are established as homes close in an amount estimated to be adequate to cover expected costs of materials and outside labor during warranty periods. Our warranty reserves are based on factors that include an actuarial study for structural warranty, historical and anticipated warranty claims, trends related to similar product types, number of home closings, and geographical areas. The structural warranty is carried by Beneva Indemnity Company, one of our wholly owned subsidiaries. We also provide third-party warranty coverage on homes where required by Federal Housing Administration or Veterans Administration lenders.

Canadian Operations We offer a limited warranty that generally provides for seven years of structural coverage; two years of coverage for water penetration, electrical, plumbing, heating, and exterior cladding defects; and one year of coverage for workmanship and materials. We are responsible for performing all of the work during the warranty period. As a result, warranty reserves are established as homes close in an amount estimated to be adequate to cover expected costs of materials and labor during warranty periods. The warranty reserves are determined using historical experience and trends related to similar product types, and number of home closings.

Sales and Marketing

Our marketing program calls for a balanced approach of corporate support and local expertise to attract potential homebuyers in a focused, efficient and cost-effective manner. Our sales and marketing team provides a generalized marketing framework across our regional operations as well as sales training to our local teams. Our divisional sales

and marketing teams utilize local media and marketing streams to deliver a unique message that is relevant to our targeted consumer groups in each market.

Our goal is to identify the preferences of our target customer and demographic groups and offer them innovative, high-quality products that are efficient and profitable to build. To achieve this goal, we conduct extensive market research to determine preferences of our customer groups. We do not use off the shelf industry-standard customer groups (which tend to focus on classification by price point) in our marketing programs. Instead, through extensive and targeted market research, we have identified seven consumer groups by focusing on particular lifestyle preferences, tastes and other attributes of our customer base. Our group classification, includes four categories of couples or singles, such as our Fancy Nesters customers, and three categories of families, such as our Parks and Prestige customers.

We have gathered data regarding each group s specific consumer preferences. Our approach to customer group identification guides all of our operations from the initial land acquisition through to our design, building, marketing and

delivery of homes and our ongoing after-sales customer service. Among our peers, we believe we are at the forefront of directed marketing strategies, as evidenced by our highly-trafficked internet site as well as our strategic partnership at the Innoventions Dream Home in the Disneyland® Resort in California.

The central element of our marketing platform is our web presence at www.taylormorrison.com, www.monarchgroup.net and www.darlinghomes.com (none of which is a part of this Annual Report). The main purpose of these websites is to direct potential customers to one of our sales teams. Customers are also able to use the websites to make inquiries and to receive a prompt response from one of our Internet Home Consultants. The websites are fully integrated with our customer relationship management (CRM) system. By analyzing the content of the CRM, we are able to focus our lead generation programs to deliver high-quality sales leads. With these leads we are better able to increase sale conversion rates and lower marketing costs.

We use furnished model homes as a marketing tool to demonstrate to prospective homebuyers the advantages of the designs and features of our homes. We generally employ or contract with interior and landscape designers who create attractive model homes that highlight the features and options available for the product line within a project. We generally build between one and three model homes for each active selling community, depending upon the number of homes to be built in the project and the products to be offered. At December 31, 2013, we owned 275 model homes.

In Canada, our homes are only sold by third party brokers who are paid a sales commission based on the price of the home. In the U.S., our homes generally are sold by our commissioned employees who typically work primarily from a sales office located in one of the model homes for each project. We also employ a team of internet sales associates who offer assistance to potential buyers viewing our products over the Internet. At December 31, 2013, we had approximately 330 full-time sales and marketing personnel. Our goal is to ensure that our sales force has extensive knowledge of our housing product, our energy efficient features, our sales strategies and mortgage options, and community dynamics, in order to fully execute our marketing message. To achieve this goal, we train our sales associates and conduct regular meetings to update them on items such as our products, sales techniques, competitive products in the area, financing availability and credit score repair opportunities. Our sales associates are licensed real estate agents where required by law and assist our customers in adding available customization features to their homes, which we design to appeal to local consumer demands. Third-party brokers who sell our homes are usually paid a sales commission based on the price of the home. We mainly 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, to attract buyers. 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 home builders of varying sizes, ranging from local to national in scope, some of which have greater sales and financial resources than we do. Sales of existing homes, whether by a homeowner or by a financial institution that has acquired a home through a foreclosure, also provide competition. We compete primarily on the basis of price, location, design, quality, service and reputation.

The homebuilding industry has historically been subject to significant volatility. We may be at a competitive disadvantage with regard to certain of our national competitors whose operations are more geographically diversified than ours, as these competitors may be better able to withstand any future regional downturn in the housing market. In addition, some of our national competitors are larger than we are and may have greater financial and operational

resources than we do. This may give our competitors an advantage in marketing their products, securing materials and labor at lower prices and allowing their homes to be delivered to customers more quickly and at more favorable prices, as discussed under *Risk Factors* in Item 1.A of this Annual Report.

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. In recent years, market conditions in the U.S. have also led to a large number of foreclosed and short sale homes being offered for sale, which has increased competition and has affected pricing. However, we have taken a proactive approach to distancing ourselves from highly affected submarkets, enabling us to drive sales in our markets without competing as directly with foreclosures.

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Across our U.S. markets, we have seen reduced competition from small and mid-sized private builders who had been competitors in the new home market. We believe that access to and cost of capital for these private builders has been significantly constrained; however, private builders in the Canadian markets are well capitalized.

Seasonality

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

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

As a result of seasonal activity, our quarterly results of operation and financial position are not necessarily representative of the results we expect at year end. We expect this seasonal pattern to continue.

Mortgage Operations

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

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

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

As of January 1, 2011, in response to U.S. federal regulatory changes, TMHF transitioned to operating as a full lender (previously TMHF operated as a table-funded lender) and conducting its business as a Federal Housing Authority (FHA) Full Eagle lender. TMHF funds mortgage loans utilizing a warehouse line facility. 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. We typically seek to hold loans on our books for approximately 20 days before selling them to the secondary market.

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

	TMHF Closed Loans	Aggregate Loan Volume (in millions)	Capture Rate
December 31, 2013	2,828	$ 845.3	78%
December 31, 2012	2,022	529.7	84
December 31, 2011	1,512	374.5	83

Our mortgage capture rate represents the percentage of our U.S. homes sold to a purchaser that utilized a mortgage, for which the borrower obtained such mortgage from TMHF or one of our preferred third party lenders. Our capture rate decreased in 2013 as we transitioned our Darling operations from a legacy provider to TMHF. In 2013 and 2012 the average FICO score of customers who obtained mortgages through TMHF was 739 and 738, respectively.

TMHF competes with other mortgage lenders, including national, regional and local mortgage bankers and other financial institutions. While many large homebuilders are affiliated with a single lender, TMHF utilizes a multi-lender correspondent platform which gives us increased flexibility when placing loans with investors. During the downturn, during which time this structure had limited correspondent lenders, TMHF continued to strengthen its relationships with its existing lender sources. This created stability and consistency in our processes and delivery of funding. Although we do not benefit from the secondary market segment of our mortgage transactions, we have the benefits of utilizing our lender s underwriting and funding platforms. Along with reduced underwriting risk of the legacy pipeline, we believe this advantage has made us stronger and more resilient than many of our peers in uncertain economic conditions. Due to the historically low interest rate environment, many banks are focused on existing home refinance business and government modification/refinance programs, while our focus and expertise remains dedicated to the financing of new home construction. While many builder-owned mortgage companies sustained significant losses from repurchase demands, TMHF did not suffer losses comparable to those of many of its peers, due to the unique multi-lender platform and mitigated exposure to repurchases and buy-backs.

Regulation, Environmental, Health and Safety Matters

Regulatory

We are subject to various local, state, provincial 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, provincial and local legislation authorizing the acquisition of land as dedicated open space, mainly by governmental, quasi-public and non-profit entities. In addition, we are subject to various licensing, registration and filing requirements in connection with the construction, advertisement and sale of homes in our communities. The impact of these laws has been to increase our overall costs, and may have delayed the opening of communities or caused us to conclude that development of particular communities would not be economically feasible, even if any or all necessary governmental approvals were obtained. We also may be subject to periodic delays or may be precluded entirely from developing communities due to building moratoriums in one or more of the areas in which we operate. Generally, such moratoriums relate to insufficient water, power, drainage or sewage facilities or inadequate road capacity.

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

TMHF is subject to various state and federal statutes, rules and regulations, including those that relate to licensing, lending operations and other areas of mortgage origination and financing. The impact of those statutes, rules and regulations can increase our home buyers cost of financing, increase our cost of doing business, as well as restrict our home buyers access to some types of loans. In January 2013, the Consumer Financial Protection Bureau proposed a

number of new rules that became effective in January 2014, including but not limited to rules regarding the creation and definition of a Qualified Mortgage , rules for lender practices regarding assessing borrowers ability to repay, and limitations on certain fees and incentive arrangements. The effects of these rules upon their adoption could affect the availability and cost of mortgage credit. Other requirements provided for by the Dodd-Frank Act have not yet been finalized or implemented. The effect of such provisions on our financial services business will depend on the rules that are ultimately enacted.

In order for our homebuyers to finance their home purchases with FHA-insured, Veterans Administration (VA)-guaranteed or U.S. Department of Agriculture (USDA)-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, provincial and federal statutes, ordinances, rules and regulations concerning protection of public health and the environment (collectively, the environmental laws). The particular environmental laws that apply to any given community vary greatly according to the location and environmental condition of the site and the present and former uses of the site. Complying with these environmental laws may result in delays, may cause us to incur substantial compliance and other costs, and/or may prohibit or severely restrict development in certain environmentally sensitive regions or areas.

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

We manage compliance with federal, state, provincial and local environmental requirements at the division level with assistance from the corporate and regional legal departments, including environmental regulations related to U.S. Storm Water Pollution Prevention, U.S. Endangered Species Act, U.S. Wetlands Permitting, NPDES Permitting, Cultural Resources, dust control measures and state, provincial and local preservation ordinances.

Health and Safety

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

Employees, Subcontractors and Consultants

As of December 31, 2013, we employed 1,259 full-time equivalent persons. Of these, 1,135 were engaged in corporate and homebuilding operations, and the remaining 124 were engaged in mortgage services. As of December 31, 2013, we were subject to no 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 architectural, engineering, advertising and some legal services, and we strive to maintain good relationships with our subcontractors and independent consultants and contractors.

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. and Canada. 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. All back-office operations in the U.S. and Canada use a fully integrated, industry recognized enterprise resource planning package. Marketing and field sales utilize a leading CRM solution that tracks leads and prospects from all sources and manages the customer communication process from lead creation through the buying process and beyond the post-warranty period. Field operations teams collaborate with the supply chain to schedule and manage development and construction projects with a set of standard and widely used homebuilding industry solutions.

Intellectual Property

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

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;
- consumer confidence generally and the confidence of potential homebuyers in particular;
- the ability of existing homeowners to sell their existing homes at prices that are acceptable to them;

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

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

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

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

demand from overseas buyers for our homes (particularly in our GTA market), which may fluctuate according to economic circumstances in overseas markets;

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

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

real estate taxes; and

the supply of developable land in our markets in the U.S. and Canada.

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 recent downturn, unfavorable changes in many of the above factors negatively affected all of the markets we serve, although to a more limited extent in Canada than in the U.S. Economic conditions in all our markets continue to be characterized by levels of uncertainty. Any deterioration in economic conditions or continuation of uncertain economic conditions would have a material adverse effect on our business.

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

The homebuilding industry in the U.S. has recently undergone a significant downturn, and the likelihood of a full recovery is uncertain in the current state of the economy. A slowdown in our business in the U.S. or a downturn in Ontario, Canada could have additional adverse effects on our operating results and financial condition.

In connection with the most recent downturn in the U.S. housing market, we incurred substantial losses, after impairments, in our U.S. operations during 2008 and 2009. Although the U.S. housing market continues to recover, we cannot predict the extent of further recovery or its timing. In addition, while the market for single-family homes and high-rise condominiums in Canada remained relatively stable during the U.S. downturn, the housing market in parts of Canada has lately shown signs of weakening. With slowing job growth relative to the recent past, ongoing global economic uncertainty and increasing units under construction, the GTA has seen a moderation in sales activity compared to prior periods. It is anticipated that Ontario housing starts could continue to moderate and average new home prices have remained relatively flat in 2013 and may remain flat in 2014. A significant weakening of the Ontario housing market could adversely affect our business.

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

Changes to foreign currency exchange rates could adversely affect our earnings and net asset value.

We have businesses with exposure to foreign currency exchange risk in Canada. Changes in the $U.S.-$CAD exchange rate will affect the value of our reported earnings and the value of our assets and liabilities denominated in foreign currencies. For example, an increase in the value of the U.S. dollar compared to the Canadian dollar would reduce our Canadian dollar-denominated revenue when reported in U.S. dollars, our functional reporting currency. Our business, financial condition and operating results may be adversely affected by such exchange rate fluctuations.

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

We are often required to provide performance, payment and completion and warranty/maintenance surety bonds or letters of credit to secure the completion of our construction contracts, development agreements and other arrangements. We have obtained facilities to provide the required volume of performance, payment and completion

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

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

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

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

Compared to the prevailing cancellation rates in the U.S., our experience has been that cancellations in Canada are less common due to differences in the Canadian economy and the laws of Ontario, which make it more difficult for purchasers to cancel their contracts. Although our cancellation rates for our homebuyers in the U.S. are now closer to long-term historical averages, cancellation rates may rise in the future. If uncertain economic conditions in the U.S. and Canada continue, if mortgage financing becomes less available or if current homeowners find it difficult to sell their current homes, more homebuyers may cancel their sales contracts with us. As a result, our financial condition may deteriorate and you may lose a portion of your investment.

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

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

We operate in a very competitive environment which is characterized by competition from a number of other homebuilders in each market in which we operate. We compete with large national and regional homebuilding companies and with smaller local homebuilders for land, financing, affiliated or in-house services, raw materials and skilled management, volume discounts, local REALTOR® and labor resources. We also compete with the resale, or previously owned, home market which has increased significantly due to the large number of homes that have been foreclosed on or could be foreclosed on due to the recent economic downturn. Increased competition could cause us to

increase our selling incentives and reduce our prices. An oversupply of homes available for sale and the heavy discounting of home prices by some of our competitors have adversely affected demand for our homes and the results of our operations in the past and could do so again in the future. Our Mortgage Operations business competes with other mortgage lenders and title companies, including national, regional and local mortgage banks and other financial institutions, some of which are subject to fewer government regulations. Mortgage lenders who are subject to fewer regulations or have greater access to capital or different lending criteria may be able to offer more attractive financing to potential customers. If we are unable to compete effectively in our homebuilding and mortgage services markets, our business could decline disproportionately to our competitors, and our results of operations and financial condition could be adversely affected.

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

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

During the last five fiscal years, the mortgage lending industry in the U.S. has experienced significant instability, beginning with increased defaults on subprime loans and other nonconforming loans and compounded by expectations of increasing interest payments requirements and further defaults. Lending requirements and standards remain tightened and as a result, investor demand for mortgage loans and mortgage-backed securities has declined. The liquidity provided by government sponsored entities, such as Fannie Mae, Freddie Mac, the FHA and Veterans Administration, to the mortgage industry has been very important to the housing market. These entities have required substantial injections of capital from the federal government and may require additional government support in the future. Several federal government officials have proposed changing the nature of the relationship between Fannie Mae and Freddie Mac and the federal government and even nationalizing or eliminating these entities entirely. If Fannie Mae and Freddie Mac were dissolved or if the federal government determined to stop providing liquidity support to the mortgage market, there would be a reduction in the availability of the financing provided by these institutions. Any such reduction would likely have an adverse effect on interest rates, mortgage availability and our sales of new homes. The FHA insures mortgage loans that generally have lower loan payment requirements and qualification standards compared to conventional guidelines, and as a result, continue to be a particularly important source for financing the sale of our homes. In recent years, lenders have taken a more conservative view of FHA guidelines causing significant tightening of borrower eligibility for approval. Further restrictions are expected on FHA-insured loans, including limitations on seller-paid closing costs and concessions. This or any other restriction may negatively affect the availability or affordability of FHA financing, which could adversely affect our ability to sell homes in the U.S. In addition, changes in federal and provincial regulatory and fiscal policies aimed at aiding the home buying market (including a repeal of the home mortgage interest tax deduction) may also negatively affect potential homebuyers ability to purchase homes.

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

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

In the U.S., the unemployment rate was 6.6% as of January 2014, 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 63.0% in January 2014, potentially reflecting an increased number of discouraged workers who have left the

labor force. People who are not employed, are underemployed, who have left the labor force or are concerned about 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.

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

Significant expenses of owning a home, including mortgage interest and real estate taxes, generally are deductible expenses for an individual s U.S. federal, and in some cases, state income taxes, subject to various limitations under current tax law and policy. Mortgage interest and real estate taxes are not deductible for an individual s federal or provincial income taxes in Canada. If the U.S. federal government or a state government changes its income tax laws, as has been discussed from time to time, to eliminate, limit or substantially modify these income tax deductions, the after-tax cost of owning a new home would increase for many of our potential customers. The resulting loss or reduction of homeowner tax deductions, if such tax law changes were enacted without offsetting provisions, or any other increase in any taxes affecting homeowners, would adversely impact demand for and sales prices of new homes.

Increases in property tax rates by local governmental authorities, as experienced in response to reduced federal, state and provincial 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 (such as the Ontario harmonized sales tax initiative implemented in July 2010 by the Government of Ontario combining the 5% Canadian federal goods and services tax and the 8% Ontario provincial sales tax with certain abatement, rebate and transition rules for new housing) 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.

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

Inflation could adversely affect our business and financial results, particularly in a period of oversupply of homes.

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

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

Our quarterly operating results generally fluctuate by season and also because of the uneven delivery schedule of certain of our products and communities, such as high-rise condominiums in the GTA.

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

adverse effect on our sales and revenues.

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

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

Unfavorable media related to our industry, company, brands, marketing, personnel, operations, business performance, or prospects may affect our stock price and the performance of our business, regardless of its accuracy or inaccuracy. Our success in maintaining, extending and expanding our brand image depends on our ability to adapt to a rapidly changing media environment. Adverse publicity or negative commentary on social media outlets, such as blogs, websites or newsletters, could hurt operating results, as consumers might avoid brands that receive bad press or negative reviews. Negative publicity may result in a decrease in our operating results.

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

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

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

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

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

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

We rely on contractors in order to perform the construction of our homes, and in many cases, to select and obtain raw materials. We are exposed to various risks as a result of our reliance on these contractors and their respective subcontractors and suppliers, including, as described above, the possibility of defects in our homes due to improper practices or materials used by contractors, which may require us to comply with our warranty obligations and/or bring a claim under an insurance policy. Several other homebuilders have received inquiries from regulatory agencies

concerning whether homebuilders using contractors are deemed to be employers of the employees of such contractors under certain circumstances. Although contractors are independent of the homebuilders that contract with them under normal management practices and the terms of trade contracts and subcontracts within the homebuilding industry, if regulatory agencies reclassify the employees of contractors as employees of homebuilders, homebuilders using contractors could be responsible for wage, hour and other employment-related liabilities of their contractors. In the event that a regulatory agency reclassified the employees of our contractors as our own employees, we could be responsible for wage, hour and other employment-related liabilities of our contractors.

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

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

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

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

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

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

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

and build houses.

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

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

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

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

- work stoppages resulting from labor disputes;
- shortages of qualified trades people, such as carpenters, roofers, electricians and plumbers, especially in our key markets in the southwest U.S.;
- changes in laws relating to union organizing activity;
- changes in immigration laws and trends in labor force migration; and
- increases in sub-contractor and professional services costs.

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

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

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

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

our development and construction activities may suffer from delays and quality issues, which would also lead to reduced levels of customer satisfaction.

During the recent downturn, we had to reduce our number of employees, which may have resulted in a loss of knowledge that could be detrimental to our business and our ability to manage future business opportunities. Our margins, and accordingly our business, financial conditions and operating results, may 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 the property is not feasible

for development. Various local, provincial, state and federal statutes, ordinances, rules and regulations concerning building, health and safety, site and building design, environment, zoning, sales and similar matters apply to and/or affect the housing industry. We are also subject to various fees and charges of government authorities designed to defray the cost of providing certain governmental services and improvements.

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

Certain states, cities and counties in which we operate have in the past approved, or approved for inclusion on their ballot, various slow growth or no growth initiatives and other ballot measures that could negatively impact the availability of land and building opportunities within those localities. A similar initiative in Ontario, Canada known as smart growth could also negatively impact our Canadian operations. The Ontario smart growth initiatives were implemented in 2005 pursuant to the Places to Grow Act and the Greenbelt Act . The legislation is designed to minimize urban sprawl, promote population density increases in cities and towns and protect the agricultural land and natural systems that surround the GTA, extending from Niagara Falls to Oshawa, Ontario, bordering Lake Ontario. The effect of the legislation is to restrict development on approximately 1.8 million acres of land. 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, smart-growth or other similar programs could exacerbate such risks. The above risks could have a material, adverse effect on our business and results of operations in Canada.

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

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

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

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

Prior to January 1, 2011, TMHF operated as a mortgage broker, limiting TMHF s exposure to employee or third party fraud in the origination and processing of loan applications submitted to wholesale lending groups, and which may repurchase risk from previously closed loans. Since January 1, 2011, in response to new legislation and in order to operate competitively in the market, TMHF transitioned to full lender status. This change results in TMHF having the ability to originate, underwrite and fund mortgage transactions through correspondent lending relationships. While we intend for the loans that TMHF originates to typically be held for no more than 20 days before being sold on the secondary market, if TMHF is unable to sell loans into the secondary mortgage market or directly to large secondary

market loan purchasers such as Fannie Mae and Freddie Mac, TMHF would bear the risk of being a long-term investor in these originated loans. Mortgage lending is also subject to credit risks associated with the borrowers to whom the loans are extended and an increase in default rates could have a material and adverse effect on our business. Being required to hold loans on a long-term basis would also negatively affect our liquidity and could require us to use additional capital resources to finance the loans that TMHF is extending. In addition, although mortgage lenders under the mortgage warehouse facilities TMHF currently uses to finance our lending operations normally purchase our mortgages within 20 days of origination, if such mortgage lenders default under these warehouse facilities TMHF would be required to fund the mortgages then in the pipeline. In such case, amounts available under our Restated Revolving Credit Facility and cash from operations may not be sufficient to allow TMHF to provide financing required by our business during these times.

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

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

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

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

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

We have significant deferred tax assets, including net operating losses in the U.S. that could be used to offset earnings and reduce the amount of taxes we are required to pay. Our ability to use net operating losses to offset earnings is

dependent on a number of factors, including applicable rules relating to the permitted carry back period for offsetting certain net operating losses against prior period earnings and the timing and amount of future taxable income.

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

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

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

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

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

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

Due to the concentrated nature of our operations, negative factors affecting one or a number of these geographic regions at the same time could result in a relatively greater impact on our results of operations than they might have on other companies that have a more diversified portfolio of operations.

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

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

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

We have investments in and commitments to certain unconsolidated joint ventures with 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. In certain instances, we and the other partners in an unconsolidated joint venture provide guarantees and indemnities to lenders with respect to the unconsolidated joint venture s debt, which may be triggered under certain conditions when the unconsolidated joint venture fails to fulfill its obligations under its loan agreements.

In Canada, we have consistently used joint ventures as a means of acquiring land. Where we do not have a controlling interest in these unconsolidated joint ventures, we depend heavily on the other partners in each unconsolidated joint venture to both cooperate and make mutually acceptable decisions regarding the conduct of the business and affairs of the unconsolidated joint venture and ensure that they, and the unconsolidated joint venture, fulfill their respective obligations to us and to third parties. If the other partners in our unconsolidated joint ventures do not provide such

cooperation or fulfill these obligations due to their financial condition, strategic business interests (which may be contrary to ours), or otherwise, we may be required to spend additional resources (including payments under the guarantees we have provided to the unconsolidated joint ventures lenders) and suffer losses, each of which could be significant. Moreover, our ability to recoup such expenditures and losses by exercising remedies against such partners may be limited due to potential legal defenses they may have, their respective financial condition and other circumstances. In addition, certain joint ventures relating to our Canadian operations have change of control consent requirements that may have the effect of delaying, deferring or preventing a change of control of such joint ventures. Furthermore, the termination of a joint venture may also give rise to lawsuits and legal costs.

In certain instances, Monarch and the other partners in a joint venture provide guarantees and indemnities to lenders with respect to the unconsolidated joint venture s debt, which may be triggered under certain conditions when the joint venture fails to fulfill its obligations under its loan agreements. As of December 31, 2013, Monarch s total recourse exposure under its guarantees of joint venture debt was approximately $91.1 million. To the extent any or all of our joint ventures default on obligations secured by the assets of such joint venture or guaranteed by Monarch, the assets of our joint ventures could be forfeited to our joint ventures third party lenders, and Monarch could be liable to such third party lenders to the full extent of its guarantees and, in the case of secured guarantees, to the extent of the assets of Monarch that secure the applicable guarantee. Any such default by our joint ventures could cause significant losses, with a resulting adverse effect on our financial condition and results of operations. Recent market conditions have required us to provide a greater number of such guarantees and we expect this trend to continue.

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

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

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

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

- difficulties in assimilating the operations and personnel of acquired companies or businesses;
- diversion of our management s attention from ongoing business concerns;
- our potential inability to maximize our financial and strategic position through the successful incorporation or disposition of operations;

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

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

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 come to light after the expiry of warranty or indemnity periods. Additionally, while we would seek to limit our ongoing exposure, for example, through liability caps and period limits on warranties and indemnities in the case of disposals, 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 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, though in Canada we retain a defined contribution plan. As of December 31, 2013, we had recorded a deficit of $5.9 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 operating in the homebuilding industry poses certain inherent health and safety risks. 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, 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, provincial 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, including asbestos, the handling of hazardous materials and the cleanup of contaminated sites. 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. 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 relating to such developments will not arise in the future.

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. Environmental laws may result in delays, cause us to implement time consuming and expensive compliance programs and prohibit or severely restrict development in certain environmentally sensitive regions or areas, such as wetlands. We also may not identify all of these concerns during any pre-development review of project sites. Environmental regulations can also have an adverse impact on the availability and price of certain raw materials, such as lumber. Furthermore, we could incur substantial costs, including cleanup costs, fines, penalties and other sanctions and damages from third-party claims for property damage or personal injury, as a result of our failure to comply with, or liabilities under, applicable environmental laws and regulations. In addition, we are subject to third-party challenges, such as by environmental groups, under environmental laws and regulations to the permits and other approvals required for our projects and operations. These matters could adversely affect our business, financial condition and operating results.

We may be liable for claims for damages as a result of use of hazardous materials.

As a homebuilding business with a wide variety of historic homebuilding and construction activities, we could 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. Any such claims may adversely affect our business, financial condition and operating results. Insurance coverage for such claims may be limited or non-existent.

We may suffer uninsured losses or suffer material losses in excess of insurance limits.

We could suffer physical damage to property and liabilities resulting in losses that may not be fully compensated by insurance. In addition, certain types of risks, such as personal injury claims, may be, or may become in the future, either uninsurable or not economically insurable, or may not be currently or in the future covered by our insurance policies. Should an uninsured loss or a loss in excess of insured limits occur, we could sustain financial loss or lose capital invested in the affected property as well as anticipated future income from that property. In addition, we could be liable to repair damage or meet liabilities caused by uninsured risks. We may be liable for any debt or other financial obligations related to affected property. Material losses or liabilities in excess of insurance proceeds may occur in the future.

In the U.S., the coverage offered and the availability of general liability insurance for construction defects is currently limited and is costly. As a result, an increasing number of our subcontractors in the U.S. may be unable to obtain insurance, particularly in California where we have instituted an OCIP, under which subcontractors are effectively insured by us. If we cannot effectively recover construction defect liabilities and costs of defense from our subcontractors or their insurers, or if we have self-insured, we may suffer losses. Coverage may be further restricted and become even more costly. Such circumstances could adversely affect our business, financial condition and operating results.

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 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.

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

Residents of communities we develop rely on 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 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.

We are dependent on certain members of our management and key personnel.

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. 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. In addition, we do not maintain key person insurance in respect of any members of our senior management team. The loss of any of our management members or key personnel could adversely impact our business, financial condition and operating results.

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. Austin and Denver in particular have at times been affected by such shortages. Shortages of natural resources in our markets, particularly of water, may make it more difficult for us to obtain regulatory approval of new developments. We have also experienced material fluctuations in utility and resource costs across our markets, and we may incur additional costs and may not be able to complete construction on a timely basis if such fluctuations arise. Our lumber inventory is particularly sensitive to these shortages. Furthermore, these shortages and rate fluctuations may adversely affect the regional economies in which we operate, which may reduce demand for our homes and negatively affect 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 Restated Revolving Credit Facility and other credit 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. Our Canadian operations rely on separate banking facilities for liquidity. The credit facilities used in our Canadian operations are typically required to be renewed annually. If the size or availability of these banking facilities is reduced in the future, or if we are unable to renew existing facilities in the future on favorable terms, it would have an adverse effect on our liquidity and operations.

As of December 31, 2013, we had $221.3 million of debt maturing in the next 12 months. We believe we can meet 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, 2013, the total principal amount of our debt (including $74.9 million of indebtedness of TMHF) was $1.4 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 acquisitions, particularly when the availability of financing in the capital markets is limited;
- requiring a substantial portion of our cash flows from operations and the proceeds of any capital markets offerings for the payment of interest on our debt and reducing our ability to use our cash flows to fund working capital, capital expenditures, acquisitions and general corporate requirements;
- 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 Restated 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 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 indentures governing our Senior Notes and the agreements governing our Restated Revolving Credit Facility and other indebtedness may restrict our ability to pursue our business strategies.

The indentures governing our Senior Notes and the agreement governing our Restated Revolving Credit Facility limit our ability, and the terms of any future indebtedness may limit our ability, among other things, to:

- incur or guarantee additional indebtedness;
- make certain investments;
- 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 Restated Revolving Credit Facility contains certain "springing" financial covenants requiring TMM Holdings and its subsidiaries to comply with a certain maximum capitalization ratio and a certain minimum consolidated tangible net worth test. The agreement governing the Restated Revolving Credit Facility also contains customary restrictive covenants, including limitations on incurrence of liens, the payment of dividends and other distributions, the making of 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 – Overview of Capital Resources and Liquidity* in this Annual Report.

The restrictions contained in the indentures governing our Senior Notes and the agreement governing our Restated 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.

Monarch is party to the TD Facility and the HSBC Facility. These facilities also contain restrictive covenants, including a maximum debt to equity ratio, minimum consolidated net equity, limitations on dividends and maintenance of a minimum interest coverage ratio. A breach of any of these restrictive covenants or our inability to comply with the applicable financial covenants could result in a default under the agreements governing our Restated Revolving Credit Facility, the TD Facility and the HSBC Facility, which could allow for the acceleration of the debt under the agreements. If the indebtedness under our Restated Revolving Credit Facility, the TD Facility, the HSBC Facility, 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 Overview of Capital Resources and Liquidity* 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. During 2013, 2012 and 2011 we made expenditures for land and development of $992.4 million, $777.7 million and $332.8 million respectively.

During the next 12 months, we otherwise expect to meet our cash requirements with existing cash and cash equivalents, cash flow from operations (including sales of our homes and land) and borrowings under our Restated Revolving Credit Facility. We may fail to generate sufficient cash flow from the sales of our homes and land to meet our cash requirements. Further, our capital requirements may vary materially from those currently planned if, for example, our revenues do not reach expected levels or we have to incur unforeseen capital expenditures and make investments 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.

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 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 Restated Revolving Credit Facility, 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.

The Principal Equityholders have substantial influence over our business, and their interests may differ from our interests or those of our other stockholders.

The Principal Equityholders, via the TPG and Oaktree Holding Vehicles, hold a majority of the combined voting power of TMHC. Due to their ownership, our Principal Equityholders have the power to control us and our subsidiaries, including the power to:

- elect a majority of our directors and appoint our executive officers, set our management policies and exercise overall control over the Company and subsidiaries;
- agree to sell or otherwise transfer a controlling stake in the Company; and
- determine the outcome of substantially all actions requiring stockholder approval, including transactions with related parties, corporate reorganizations, acquisitions and dispositions of assets, and dividends.

The interests of our Principal Equityholders may differ from our interests or those of our other stockholders and the concentration of control in our Principal Equityholders will limit other stockholders ability to influence corporate matters. The concentration of ownership and voting power of our Principal Equityholders may also delay, defer or even prevent an acquisition by a third party or other change of control of the Company and may make some transactions more difficult or impossible without the support of our Principal Equityholders, even if such events are perceived by the other stockholders as being in their best interest. The concentration of voting power among our Principal Equityholders may have an adverse effect on the price of our Class A Common Stock. The Company may take actions that our other stockholders do not view as beneficial, which may adversely affect our results of operations and financial condition and cause the value of your investment to decline.

Pursuant to the stockholders agreement, to which TMHC is a party, along with the TPG and Oaktree Holding Vehicles and JH, certain of our actions require the approval of the directors nominated by the TPG and Oaktree Holding Vehicles. Specifically, the approval of a director nominated by the TPG Holding Vehicle, so long as it owns at least 50% of TMHC s common stock held by it at the closing of our IPO (and the application of net proceeds therefrom), and the approval of a director nominated by the Oaktree Holding Vehicle, so long as it owns at least 50% of TMHC s common stock held by it following our IPO (and the application of net proceeds therefrom), must be obtained before we are permitted to take any of the following actions:

- any change of control of TMHC;
- acquisitions or dispositions by TMHC or any of its subsidiaries of assets valued at more than $50.0 million;
- incurrence by TMHC or any of its subsidiaries of any indebtedness in an aggregate amount in excess of $50.0 million or the making of any loan in excess of $50.0 million;

issuance of any equity securities of TMHC, subject to limited exceptions (which include issuances pursuant to approved compensation plans);

hiring and termination of our Chief Executive Officer; and

certain changes to the size of 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, including mergers, consolidations or acquisitions of additional shares, for a period of three years following the time that the stockholder becomes an interested stockholder. An interested stockholder is defined to include persons owning directly or indirectly 15% or more of the outstanding voting stock of a corporation. 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, except that they provide that the TPG and Oaktree Holding Vehicles and their respective affiliates and transferees will not be deemed to be interested stockholders, regardless of the percentage of our voting stock owned by them, and accordingly will not be subject to such restrictions.

In addition, because the Principal Equityholders hold their economic interest in our business through New TMM, but not through TMHC, the public company, these existing owners may have conflicting interests with holders of shares of our Class A Common Stock.

As a controlled company within the meaning of the corporate governance rules of the New York Stock Exchange, we qualify for, and rely on, exemptions from certain corporate governance requirements. As a result, holders of our Class A Common Stock may not have the same degree of protection as that afforded to stockholders of companies that are subject to all of the corporate governance requirements of these exchanges.

We are a controlled company within the meaning of the corporate governance rules of the New York Stock Exchange as a result of the ownership position and voting rights of our Principal Equityholders. A controlled company is a company of which more than 50% of the voting power is held by an individual, group or another company. More than 50% of our voting power is held by the TPG and Oaktree Holding Vehicles. As a controlled company, we are entitled to elect, and have elected, not to comply with certain corporate governance rules of the New York Stock Exchange that would otherwise require the Board of Directors to have a majority of independent directors and our compensation and nominating and governance committees to be comprised entirely of independent directors, have written charters addressing such committee s purpose and responsibilities and perform an annual evaluation of such committee. Accordingly, holders of our Class A Common Stock do 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.

TMHC s directors who have relationships with the Principal Equityholders may have conflicts of interest with respect to matters involving the Company.

The majority of TMHC s directors are affiliated with the Principal Equityholders. These persons have fiduciary duties to TMHC and in addition have duties to the Principal Equityholders. In addition, TMHC s amended and restated certificate of incorporation provides that no officer or director of TMHC who is also an officer, director, employee or other affiliate of the Principal Equityholders or an officer, director or employee of an affiliate of the Principal Equityholders will be liable to TMHC or its stockholders for breach of any fiduciary duty by reason of the fact that any such individual directs a corporate opportunity to the Principal Equityholders or their affiliates instead of TMHC, or does not communicate information regarding a corporate opportunity to TMHC that such person or affiliate has directed to the Principal Equityholders or their affiliates. As a result, such circumstances may entail real or apparent conflicts of interest with respect to matters affecting both TMHC and the Principal Equityholders, whose interests, in some circumstances, may be adverse to those of TMHC. In addition, as a result of the Principal Equityholders indirect ownership interest, conflicts of interest could arise with respect to transactions involving business dealings between TMHC and the Principal Equityholders or their affiliates, including potential business transactions, potential acquisitions of businesses or properties, the issuance of additional securities, the payment of dividends by TMHC and other matters.

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

Maintaining effective internal control over financial reporting is necessary for us to produce reliable financial reports and is important in helping to prevent financial fraud. To date, we have not conducted an audit of our controls and our auditors have not conducted an audit of our internal control over financial reporting. If we are unable to maintain adequate internal controls, our business and operating results could be harmed. We are in the process of evaluating how 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 beginning with our Annual Report on Form 10-K for the year ending December 31, 2014. During the course of this documentation and testing, we may identify material deficiencies that we may be unable to remedy before the requisite deadline for those reports. For

example, during the course of the audit of our financial statements for the year ended December 31, 2013, our independent auditors brought to our attention a material weakness in the manner in which we calculate our net deferred tax assets and liabilities, which we are in process of remediating. Any failure to remediate material weaknesses or significant deficiencies noted by us or our independent registered public accounting firm during the audit of our internal controls or to implement required new or improved controls or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations or result in material misstatements in our financial statements. If our management or our independent registered public accounting firm were to conclude in their reports that our internal control over financial reporting was

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not effective, investors could lose confidence in our reported financial information. Failure to comply 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.

In addition to the TPG and Oaktree Holding Vehicles holding a majority of the voting power of TMHC following this offering, 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, some of which may only become effective when the TPG and Oaktree Holding Vehicles no longer beneficially own shares representing 50% or more of the combined voting power of our common stock (the Triggering Event):

- 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;
- after the Triggering Event, limitations on the ability of stockholders to call special meetings and to take action by written consent;
- after the Triggering Event, 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;
- after the Triggering Event, 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, except that they provide that the TPG and Oaktree Holding Vehicles and their respective affiliates and transferees will not be deemed to be interested stockholders, and accordingly will not be subject to such restrictions.

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 the acquisition.

Under our Restated 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 Restated 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.

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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 consists of approximately 24,000 square feet and expires in June 2018. We lease approximately 13 other properties 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 Homebuilding Operations Land Acquisition Policies and Development*.

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.

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PART II

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

Market Information

The Company lists its Class A Common Stock on the New York Stock Exchange (NYSE) under the symbol TMHC . On February 24, 2014 we had 1 holder of record of our Class A Common Stock. The following table sets forth for the quarters indicated the range of high and low trading for the Company s common stock during fiscal 2013:

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Fiscal Year Ended December 31, 2013:				
High	N/A	$ 26.89	$ 25.89	$ 23.40
Low	N/A	23.04	19.96	20.02

The Company s Class B Common Stock is not listed on a securities exchange. On February 24, 2013 we had 39 holders of our Class B Common Stock. For details on the Class B Common Stock see *Note 16 Capital Structure Reorganization Transactions* in the notes to our Consolidated and Combined Financial Statements included in Item 8 of this Annual Report.

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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 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). The chart assumes $100.00 was invested at the close of market on April 10, 2013, the date of our IPO, 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.

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

	4/10/13	4/30/13	5/31/13	6/30/13	7/31/13	8/31/13	9/30/13	10/31/13	11/30/13	12/31/13
TMHC	$ 100.00	$ 111.89	$ 112.11	$ 105.82	$ 105.16	$ 89.45	$ 98.31	$ 96.53	$ 94.84	$ 97.44
S&P 500	100.00	100.62	102.71	101.17	106.17	102.85	105.91	110.63	113.74	116.42
S&P Homebuilding	100.00	102.85	104.92	99.92	102.20	96.97	103.96	103.69	108.51	113.15

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 to make 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 as to our dividend policy will be made at the discretion of the Board of Directors of TMHC and will depend upon many factors, including those governing our Restated Revolving Credit Facility and our Senior Notes, that limit our ability to pay dividends to stockholders and other factors the Board of Directors of TMHC deem relevant. For further information, see *Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Overview of Capital Resources and Liquidity Capital Resources Original Revolving Credit Facility and Restated Revolving Credit Facility, 2020 Senior Notes* and *2021 Senior Notes.*

Issuer Purchases of Equity Securities

None.

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ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth selected consolidated and combined financial and housing data at and for each of the five fiscal years in the period ended December 31, 2013. It should be read in conjunction with the Consolidated and Combined Financial Statements and Notes thereto, listed 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.

	TMHC			Predecessor		
(Dollars in thousands, except per share amounts)	Year Ended December 31, 2013	Year Ended December 31, 2012	July 13 to December 31, 2011	January 1 to July 12, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Statements of Operations Data:						
Home closings revenue	$ 2,264,985	$ 1,369,452	$ 731,216	$ 600,069	$ 1,273,160	$ 1,224,082
Land closings revenue	27,881	44,408	10,657	13,639	12,116	24,967
Mortgage operations revenue	30,371	21,861	8,579	6,027	12,591	13,415
Total revenues	$ 2,323,237	$ 1,435,721	$ 750,452	$ 619,735	$ 1,297,867	$ 1,262,464
Cost of home closings	1,774,761	1,077,525	591,891	474,534	1,003,172	1,003,694
Cost of land closings	26,741	35,884	8,583	7,133	6,028	17,001
Inventory impairments					4,054	78,241
Mortgage operations expenses	16,446	11,266	4,495	3,818	7,246	6,269
Gross margin	$ 505,289	$ 311,046	$ 145,483	$ 134,250	$ 277,367	$ 157,259
Sales, commissions and other marketing costs	142,848	80,907	36,316	40,126	85,141	100,534
General and administrative expenses	90,743	60,444	32,883	35,743	66,232	71,300
Equity in income of unconsolidated entities	(37,563)	(22,964)	(5,247)	(2,803)	(5,319)	(347)
Interest (income) expense, net	(476)	(2,446)	(3,867)	941	40,238	20,732
Loss on extinguishment of debt	10,141	7,953				
Other expense (income), net	2,541	3,567	2,308	(10,658)	2,351	1,260
Indemnification and transaction expenses	199,119	13,034	52,292			
	$ 97,936	$ 170,551	$ 30,798	$ 70,901	$ 88,724	$ (36,220)

Income (loss) before income taxes						
Income tax provision (benefit)	3,068	(260,297)	4,031	20,881	(1,878)	(35,396)
Income (loss) before non-controlling interests, net of tax	$ 94,868	$ 430,848	$ 26,767	$ 50,020	$ 90,602	$ (824)
Loss (income) attributable to non-controlling interests joint ventures	131	(28)	(1,178)	(4,122)	(3,235)	(5,138)
Net income (loss)	$ 94,999	$ 430,820	$ 25,589	$ 45,898	$ 87,367	$ (5,962)
Income attributable to non-controlling interests Principal Equityholders	$ (49,579)					
Net income (loss) available to Taylor Morrison Home Corporation	$ 45,420	$ 430,820	$ 25,589	$ 45,898	$ 87,367	$ (5,962)
Earnings per share:						
Basic	$ 1.38	N/A	N/A	N/A	N/A	N/A
Diluted	$ 1.38	N/A	N/A	N/A	N/A	N/A
Weighted average number of shares outstanding:						
Basic	32,840	N/A	N/A	N/A	N/A	N/A
Diluted	122,319	N/A	N/A	N/A	N/A	N/A
Balance Sheet Data (at period end):						
Cash and cash equivalents, excluding restricted cash	$ 389,181	$ 300,602	$ 279,322	$ 165,415	$ 189,032	$ 237,267
Real estate inventory	2,262,339	1,604,187	1,003,482	1,073,953	979,562	1,072,147
Total assets	3,438,558	2,738,056	1,671,067	1,527,321	1,500,473	1,562,868
Total debt	1,415,082	1,027,869	599,750	605,768	925,863	1,048,535
Total equity	1,544,901	1,204,575	628,565	465,531	103,773	68,944
Operating Data (for the period ended: [1]						
Average active selling communities	177	129	140	151	149	164
Net sales orders (units)	5,697	4,842	2,035	2,094	3,690	5,216
Closings (units)	6,270	4,014	2,077	1,843	4,140	4,755
Average sales price of homes delivered	$ 382	$ 364	$ 366	$ 326	$ 308	$ 257
Backlog at the end of period (value)	$ 1,443,085	$ 1,448,934	$ 982,525	$ 1,120,466	$ 931,001	$ 972,632

Backlog at the end of period (units)	3,536	4,112	2,965	3,008	2,756	2,452

(1) Includes proportionate share of unconsolidated joint ventures

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We generate revenue primarily through sales of detached and attached homes and condominium units as well as through sales of land and the operations of our mortgage subsidiary, TMHF. We recognize revenue on detached and attached homes when the homes are completed and delivered to the buyers. We recognize revenue on the majority of our high-rise condominiums at the time of occupancy. We also recognize revenue when buyer deposits are forfeited. Revenues from loan origination are recognized at the time the related real estate transactions are completed, usually upon the close of escrow.

Our primary costs are the acquisition of land in various stages of development and the construction costs of the homes and condominiums we sell (including capitalized interest, real estate taxes and related development costs). Home construction costs are accumulated and charged to cost of sales based on the construction cost of the home being sold. Land acquisition, development, interest, taxes, overhead and condominium construction costs are allocated to homes and units using methods that approximate the relative sales value.

Our business is organized into four segments East, West, Canada and Mortgage Operations. Our East, West and Canada segments are based on geographic regions:

East: Houston (which includes a Taylor Morrison division and a Darling Homes division), Austin, Dallas (which includes a Darling Homes division only), North Florida and West Florida.

West: Phoenix, Northern California, Southern California and Denver.

Canada: Kitchener-Waterloo, Ottawa, Toronto.

In all of our markets, we build and sell a broad and innovative mix of homes across a wide range of price points. Our emphasis is on designing, building and selling homes to first and second-time move-up buyers.

All of the divisions in our East and West segments offer single-family attached and/or detached homes and generally operate as merchant builders. Merchant builders generally acquire fully planned and entitled lots and may construct on-site improvements but normally do not construct significant off-site utility or infrastructure improvements. In certain markets we also operate as community developers. Community development includes the acquisition and development of large-scale communities that may include significant planning and entitlement approvals and construction of off-site and on-site utilities and infrastructure. Our Canada segment consists of our operations within the province of Ontario, primarily in the GTA and also in Ottawa and Kitchener-Waterloo, and offers both single-family and high-rise communities.

Mortgage Operations is also a separate reportable segment of our business. Our Mortgage Operations reportable segment provides financial services to customers in the U.S. through its wholly owned mortgage brokerage subsidiary, operating as TMHF, and title examination services in some U.S. locations through various joint ventures.

Strategy

Because the housing market is cyclical, and home price movement between the peak and trough of the cycle can be significant, we seek to adhere to our core operating principles through these cycles to drive consistent long-term performance.

Based on our current land position, we expect to drive revenue by opening new communities from our existing land supply. We believe land supply provides us with the opportunity to increase our community count on a net basis by approximately 25-30% in 2014. We also currently own or have an option to purchase over 98% of the land on which we expect to close homes during 2014. We expect that most of the communities we will open during the next twelve months will be in our Phoenix, West Florida and Houston markets in response to increased demand by consumers in those markets.

Because a significant portion of our land supply was purchased at low price points during the recent downturn in the housing cycle and because our entire land inventory was adjusted to fair market value at the time of the Acquisition, we expect to continue our revenue growth and strong gross margin performance in our U.S. communities. Our approach to land supply management in our East and West regions has historically been to acquire land that has attractive characteristics, including good access to schools, shopping, recreation and transportation facilities. In connection with our overall land inventory management process, our management team reviews these considerations, as well as other financial metrics, in order to decide the highest and best use of our land assets. Historically, land dispositions have not had a material effect on our overall results of operations, but may impact overall margins.

We intend to maintain a consistent approach to land positioning within our regions, markets and communities in the foreseeable future in an effort to concentrate a greater amount of our land inventory in areas that have the attractive characteristics referred to above. We also intend to continue to combine our land development expertise with our homebuilding operations to increase the flexibility of our business, to enhance our margin performance and to control the timing of delivery of lots.

Over the next twelve months our goal is to further focus our offerings on targeted customer groups. We aim to identify the preferences of our target customer and demographic groups and offer them innovative, high-quality homes that are efficient and profitable to build. To achieve this goal, we intend to continue our market research to determine preferences of our customer groups.

We will also seek to grow through selective acquisitions in both existing markets and new markets that exhibit positive long-term fundamentals. For example, on December 31, 2012 we acquired Darling, a Texas- based homebuilder, which gives us a presence in the Dallas market and expands our presence in the Houston market.

Factors Affecting Comparability of Results

You should read this Management s Discussion and Analysis of our Financial Condition and Results of Operations in conjunction with our historical consolidated financial statements included elsewhere in this Annual Report. Below are the period-to-period comparisons of our historical results and the analysis of our financial condition. In addition to the impact of the matters discussed in the *Risk Factors* listed in Item 1A of this Annual Report, our future results could differ materially from our historical results due to a variety of factors, including the following:

Liquidity and Interest Expense

We rely on our ability to finance our operations by generating operating cash flows, borrowing under our Restated Revolving Credit Facility and our existing Canadian credit facilities or accessing the debt and equity capital markets. We also rely on our independent ability to obtain performance, payment and completion surety bonds, and letters of credit to finance our projects. We believe that we can fund our current and foreseeable liquidity needs from the cash generated from operations and borrowings under our Restated Revolving Credit Facility and our existing Canadian letter of credit facilities.

The Predecessor Parent Company no longer provides financing support for our operations, so our current liquidity profile is significantly different from that of our predecessor. For the same reason, the historical interest expense (including capitalized interest) for predecessor periods ending prior to the July 2011 Acquisition will not be comparable to that for successor periods ending after the Acquisition.

The Acquisition and Financing Transactions and Basis of Presentation

The July 2011 Acquisition has been accounted for as a purchase under ASC Topic 805, *Business Combinations*. As a result of the change in ownership, our historical financial data for periods prior to the July 13, 2011 Acquisition (the predecessor periods) are derived from the historical financial statements of our predecessor, the North American business of Taylor Wimpey plc, which financial statements have been prepared using the historical cost basis of accounting that existed prior to the Acquisition. Our financial statements for periods from and after the July 13, 2011 Acquisition (the successor period) are derived from the financial statements of TMM Holdings, which already reflect adjustments made as a result of the application of purchase accounting in connection with the Acquisition. Therefore, the financial information for the predecessor period is not comparable with that for the successor periods.

In connection with the Acquisition, we incurred indebtedness, including $625.0 million of borrowings under the Sponsor Loan, $125.0 million of which was repaid through working capital in August 2011 pursuant to our recapitalization plan, $350.0 million of which was refinanced by the offering of the senior notes and $150.0 million of which was contributed or transferred to a subsidiary of TMM Holdings. We also have the ability to borrow under our Restated Revolving Credit Facility and Canadian letter of credit facilities from time to time as warranted by business needs. Since we operated largely as a stand-alone company prior to the Acquisition, we have not incurred significant incremental general and administrative expenses as a result of the separation from Taylor Wimpey plc. Additional cost savings within the organization may be achieved in the future. However, we cannot accurately predict, and there can be no assurances as to, the extent of any such savings.

Certain results for 2011 are presented to reflect the arithmetically combined historical results from the predecessor period from January 1, 2011 to July 12, 2011 and the successor period from July 13, 2011 to December 31, 2011. This presentation may yield results that are not directly comparable on a period-to-period basis with those in predecessor periods because of differences in accounting basis due to the change of ownership resulting from the Acquisition. The cost of home closings and the cost of land closings were the only line items directly impacted in any material respect by the purchase accounting adjustments described below (although the effects of such adjustments are carried through to the items below such line items in our statement of operations). For purposes of this Annual Report, however, we believe that it is most meaningful to present our results of operations for 2011 in this manner. The combined historical results for 2011 are not necessarily indicative of what the results for the period would have been had the Acquisition actually occurred as of January 1, 2011.

Home closings and land sales that occurred during the predecessor period do not reflect any purchase accounting adjustments to costs of home closings and costs of land closings, while home closings and land sales occurring during the successor period do reflect such purchase accounting adjustments to the cost of home closings and cost of land closings. The carrying values of home and land inventory were both increased and decreased in adjusting their carrying values to fair market value as of the closing of the Acquisition through the application of purchase accounting. Such adjustments may result in higher or lower costs of home and land closings in the successor period and future periods as compared to the predecessor period. For the successor period from July 13, 2011 to December 31, 2011, such adjustments increased our cost of home closings by $38.9 million and our cost of land closings by $0.9 million. For the successor years ended December 31, 2012, such adjustments increased our cost of home closings by $6.9 million and decreased our cost of land closings by $1.6 million and in 2013 by an immaterial amount.

Non-GAAP Measures

In addition to the results reported in accordance with U.S. GAAP, we have provided information in this Annual Report relating to adjusted gross margins, and the results of unconsolidated joint ventures.

Results of unconsolidated joint ventures

References to the information or results of unconsolidated joint ventures refer to our proportionate share of unconsolidated joint ventures in Canada and are included as non-GAAP measures because they are accounted for under the equity method. We believe that such results are useful to investors as an indication of the level of business activity of our joint ventures in Canada as well as the potential for cash and revenue generation from those joint ventures.

Adjusted gross margins

We calculate adjusted gross margin from U.S. GAAP gross margin by adding impairment charges attributable to the write-down of operating communities, and the amortization of capitalized interest through cost of home closings. We also discuss adjusted home closings gross margin, which is calculated by adding back to home closings gross margin the capitalized interest amortization and impairment charges related to the homes closed. Adjusted land closings gross margin is calculated similarly. Adjusted mortgage operations gross margin is calculated by adding back impairment charges attributable to the write-down of loans receivable. Management uses our adjusted gross margin measures to evaluate our performance on a consolidated basis as well as the performance of our segments. We believe these adjusted gross margins are relevant and useful to investors for evaluating our performance. These measures are considered non-GAAP financial measures and should be considered in addition to, rather than as a substitute for, the comparable U.S.

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GAAP financial measures as measures of our operating performance. Although other companies in the homebuilding industry report similar information, the methods used may differ. We urge investors to understand the methods used by other companies in the homebuilding industry to calculate gross margins and any adjustments to such amounts before comparing our measures to those of such other companies.

Results of Operations

The following table sets forth our results of operations (Dollars in thousands):

	TMHC		Arithmetically Combined (Predeccessor/ TMHC)	TMHC	Predecessor
	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011	July 13 to December 31, 2011	January 1 to July 12, 2011
Statements of Operations Data:					
Home closings revenue	$ 2,264,985	$ 1,369,452	$ 1,331,285	$ 731,216	$ 600,069
Land closings revenue	27,881	44,408	24,296	10,657	13,639
Mortgage operations revenue	30,371	21,861	14,606	8,579	6,027
Total revenues	$ 2,323,237	$ 1,435,721	$ 1,370,187	$ 750,452	$ 619,735
Cost of home closings	1,774,761	1,077,525	1,066,425	591,891	474,534
Cost of land closings	26,741	35,884	15,716	8,583	7,133
Mortgage operations expenses	16,446	11,266	8,313	4,495	3,818
Gross margin	$ 505,289	$ 311,046	$ 279,733	$ 145,483	$ 134,250
Sales, commissions and other marketing costs	142,848	80,907	76,442	36,316	40,126
General and administrative expenses	90,743	60,444	68,626	32,883	35,743
Equity in income of unconsolidated entities	(37,563)	(22,964)	(8,050)	(5,247)	(2,803)
Interest (income) expense, net	(476)	(2,446)	(2,926)	(3,867)	941
Loss on extinguishment of debt	10,141	7,953			
Other expense (income), net	2,541	3,567	(8,350)	2,308	(10,658)
Indemnification and transaction expenses	199,119	13,034	52,292	52,292	
Income before income taxes	$ 97,936	$ 170,551	$ 101,699	$ 30,798	$ 70,901
Income tax provision (benefit)	3,068	(260,297)	24,912	4,031	20,881
Income before non-controlling interests, net	$ 94,868	$ 430,848	$ 76,787	$ 26,767	$ 50,020

of tax										
Loss (income) attributable to non-controlling interests joint ventures		131		(28)		(5,300)		(1,178)		(4,122)
Net income	$	94,999	$	430,820	$	71,487	$	25,589	$	45,898
Income attributable to non-controlling interests Principal Equityholders		(49,579)								
Net income available to Taylor Morrison Home Corporation	$	45,420	$	430,820	$	71,487	$	25,589	$	45,898
Gross margin as a % of revenue from home closings		22.3%		22.7%		21.0%		19.9%		22.4%
Sales, commissions and other marketing costs as a % of revenue from home closings		6.3%		5.9%		5.7%		5.0%		6.7%
General and administrative expenses as a % of revenue from home closings		4.0%		4.4%		5.2%		4.5%		6.0%
Average sales price per home closed	$	382	$	364	$	347	$	366	$	326

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Key Results

Key financial results as of and for the year ended December 31, 2013, as compared to the same period in 2012, are as follows:

- Net sales orders increased 17.7% from 4,842 homes (including 360 homes in unconsolidated joint ventures) to 5,697 homes (including 83 homes in unconsolidated joint ventures). Orders in our East segment increased from 2,077 homes to 3,255 homes, while orders in our West segment increased from 1,661 homes to 1,763 homes. Orders in our Canada segment, including our share of joint ventures, decreased from 1,104 to 679 homes.

- Homes closed increased 56.2% from 4,014 homes (including 232 homes in unconsolidated joint ventures) to 6,270 homes (including 441 homes in unconsolidated joint ventures), with an increase in the average selling price of those homes closed of 5.0% to $382,000. Homes closed in our East segment increased from 1,661 homes to 2,913 homes, while home closings in the West segment increased from 1,272 homes to 1,803 homes. Closings in Canada, including our share of joint ventures, increased from 1,081 homes to 1,554 homes.

- Homebuilding revenues increased 65.4%, from $1.4 billion to $2.3 billion.

- Gross margin remained constant at 21.7%.

- Selling, commissions and marketing costs increased 76.6% from $80.9 million to $142.8 million, and as a percentage of total revenues increased slightly from 5.6% to 6.1%.

- General and administrative expenses increased 50.1% from $60.4 million to $90.7 million, and as a percentage of total revenues decreased slightly from 4.2% to 4.0%.

- In 2013 we incurred a charge of $88.5 million related to the tax indemnity item, and in connection with, the following IPO-related Reorganization Transactions, we incurred one time charges of: $80.2 million for the modification of the TMM Holdings Class J Units, $29.8 million to terminate the management services agreement and $10.1 million related to early extinguishment of debt.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Average Active Selling Communities

	Year Ended December 31,		
	2013	2012	Change

East	120.7	74.6	61.8%
West	37.6	33.2	13.3
Subtotal U.S.	158.3	107.8	46.8%
Canada	14.8	14.0	5.7
Subtotal North America	**173.1**	**121.8**	42.1%
Unconsolidated joint ventures [1]	4.0	6.9	(42.0)
Total	**177.1**	**128.7**	37.6%

(1) Represents the average number of total communities in which our joint ventures were actively selling during the period.

Average active selling communities increased 37.6% from the year ended December 31, 2012 to the year ended December 31, 2013 with the largest increase in the East segment, primarily due to the addition of 43 Darling Homes communities. We opened new communities and completed existing communities throughout all of our markets during 2013, with the largest number of additions in our West Florida, Phoenix and Houston divisions, where demand and our land positions afforded us the opportunity. We open communities when we believe we have the greatest probability of capitalizing on favorable market conditions in which the community is located.

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Net Sales Orders

(Dollars in thousands)	Year Ended December 31, (1)								
	Net Homes Sold			Sales Value			Average Selling Price		
	2013	2012	Change	2013	2012	Change	2013	2012	Change
East	3,255	2,077	56.7%	$ 1,266,461	$ 692,287	82.9%	$ 389	$ 333	16.7%
West	1,763	1,661	6.1	839,764	612,428	37.1	476	369	29.2
Subtotal U.S.	5,018	3,738	34.2%	$ 2,106,225	$ 1,304,715	61.4%	$ 420	$ 349	20.3%
Canada	596	744	(19.9)	265,367	309,584	(14.3)	445	416	7.0
Subtotal North America	5,614	4,482	25.3%	$ 2,371,592	$ 1,614,299	46.9%	$ 422	$ 360	17.3%
Unconsolidated joint ventures (2)	83	360	(76.9)	30,812	82,845	62.8	371	230	61.1
Total	5,697	4,842	17.7%	$ 2,402,404	$ 1,697,144	41.6%	$ 422	$ 351	20.3%

(1) Net sales orders represent the number and dollar value of new sales contracts executed with customers. High-rise sales are generally not recognized until a building is approved for construction. High-rise sales typically do not close in the year sold. Other sales are recognized after a contract is signed and the rescission period has ended.

(2) Includes only proportionate share of unconsolidated joint ventures.

The value of net sales orders, including those of unconsolidated joint ventures, increased by 41.6% to $2.4 billion in the year ended December 31, 2013, from $1.7 billion in the year ended December 31, 2012. The number of net homes sold, including those of unconsolidated joint ventures, increased 17.7% to 5,697 homes (including 83 homes in unconsolidated joint ventures) in the year ended December 31, 2013 from 4,842 homes (including 360 in unconsolidated joint ventures) in the year December 31, 2012. These results were driven by the continued strong demand in the U.S. spring selling season in 2013, during which we benefited from higher selling prices as consumers in the market gained confidence in the values present in the marketplace, historically low interest rates and improved macro economic conditions. The improved homebuilding market significantly impacted areas such as Phoenix, West Florida and Northern California resulting in an increase in the number of units sold and related revenue for the year ended December 31, 2013 over the prior year comparable period. The Canada segment experienced a decline of 425 units (including units in joint ventures) in net new homes sold in the year ended December 31, 2013 when compared to the same period last year. The decrease is attributable to the lower availability of saleable product in the segment in the year ended December 31, 2013 and moderating local economic conditions.

We expect that, to the extent economic and housing conditions improve in the markets in which we operate, net homes sold and aggregate sales value will increase. Average selling price is dependent to a large degree on product type, which communities are being actively sold and consumer demand.

Sales Order Cancellations Units

	Year Ended December 31,			
	Cancelled Sales Orders		**Cancellation Rate [1]**	
	2013	**2012**	**2013**	**2012**
East	533	363	14.1%	14.9%
West	306	243	14.8	12.8
Subtotal U.S./weighted average	839	606	14.3%	14.0%
Canada	10	19	1.7	2.5
Subtotal North America/weighted average	849	625	13.1%	12.2%
Unconsolidated joint ventures [2]	1	6	1.2	1.8
Total/weighted average	850	631	13.0%	11.5%

(1) Cancellation rate represents the number of cancelled sales orders divided by gross sales orders.
(2) Includes only proportionate share of unconsolidated joint ventures.

The number of our sales order cancellations, including those of unconsolidated joint ventures, increased due to increases in sales volume, from 631 in the year ended December 31, 2012 to 850 in the year ended December 31, 2013. The cancellation rate increased 150 basis points from 11.5% in the year ended December 31, 2012 to 13.0% for the year ended December 31, 2013. This increase was due to a decrease in the proportion of units ordered in Canada, which typically has a cancellation rate around 2% as sales contracts are under specific performance conditions, as compared to the U.S. where a buyer generally has a greater ability to cancel a sales contract. Our continued scrutiny of potential buyers, consumer-friendly lending markets, use of prequalification strategies, as well as our increased deposit amounts, help us maintain a low cancellation rate.

Sales Order Backlog

	As of December 31,								
(Dollars in thousands)	**Sold Homes in Backlog (1)**			**Sales Value**			**Average Selling Price**		
	2013	**2012**	**Change**	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
East	1,544	1,202	28.5%	$ 667,725	$ 474,086	40.8%	$ 432	$ 394	9.6%
West	622	662	(6.0)	320,029	241,947	32.3	515	365	40.8
Subtotal U.S.	2,166	1,864	16.2%	987,754	716,033	37.9%	$ 456	$ 384	18.7%
Canada	822	1,339	(38.6)	259,352	419,607	(38.2)	316	313	0.7
Subtotal North America	2,988	3,203	(6.7)%	$ 1,247,106	$ 1,135,640	9.8%	$ 417	$ 355	17.7%
Unconsolidated joint ventures[2]	548	909	(39.7)	195,979	313,294	(37.4)	358	345	3.8
Total	3,536	4,112	(14.0)%	$ 1,443,085	$ 1,448,934	(0.4)%	$ 408	$ 352	15.8%

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

(2) Reflects our proportionate share of unconsolidated joint ventures.

Our homes in backlog at December 31, 2013 decreased by 14.0% from December 31, 2012. This decrease was driven in part by an increase in the number of homes closed in 2013 compared to 2012 and the delivery of two joint venture and one wholly owned high-rise building in our Canada segment. In 2013, we did not launch any new towers for sale. The decrease is also a result of timing as the home delivery cycle has continued to show efficiencies. The above decreases are partially offset by the acquisition of Darling Homes in our East segment, which added units in backlog. Our backlog of 3,536 homes, including 548 homes in unconsolidated joint ventures, was valued at $1.4 billion as compared to 4,112 homes, including 909 homes in unconsolidated joint ventures, at December 31, 2012, valued at $1.4 billion.

Home Closings Revenue

	Year Ended December 31,								
(Dollars in thousands)	**Homes Closed**			**Sales Value [1]**			**Average Selling Price**		
	2013	**2012**	**Change**	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
East	2,913	1,661	75.4%	$ 1,094,578	$ 529,686	106.6%	$ 376	$ 319	17.8%
West	1,803	1,272	41.7	763,372	456,512	67.2	423	359	18.0
Subtotal U.S.	4,716	2,933	60.8%	$ 1,857,950	$ 986,198	88.4%	$ 394	$ 336	17.2%
Canada	1,113	849	31.1	407,035	383,254	6.2	366	451	(19.0)
Subtotal North America	5,829	3,782	54.1%	$ 2,264,985	$ 1,369,452	65.4%	$ 389	$ 362	7.3%
Unconsolidated joint ventures [2] [3]	441	232	90.1	132,525	90,791	46.0	301	391	(23.2)
Total	6,270	4,014	56.2%	$ 2,397,510	$ 1,460,243	64.2%	$ 382	$ 364	5.0%

(1) Home closings revenue represents homes where possession has transferred to the buyer.

(2) Reflects our proportionate share of unconsolidated joint ventures.

(3) Unconsolidated joint venture revenue is not reported as revenue but is recognized as a component of income of unconsolidated entities. Included here on a non-GAAP basis for informational purposes only.

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Home closings revenue (including unconsolidated joint venture home closings revenue), increased 64.2% from $1.5 billion in the year ended December 31, 2012, to $2.4 billion in the year ended December 31, 2013. Home closings revenue (excluding unconsolidated joint ventures) increased from $1.4 billion in the year ended December 31, 2012 to $2.3 billion in the year ended December 31, 2013. The average selling price of homes closed (including unconsolidated joint ventures) during the year ended December 31, 2013 was $382,000, up 5.0% from the $364,000 average selling price in the year ended December 31, 2012. Sales backlog converted in our Phoenix, Houston and West Florida markets, as well as with the Darling Acquisition, surpassed prior periods by significant amounts driving both units and revenue dollars higher. In Canada, the decrease in average home closings sales price was due to a product mix shift into move-up communities located in affordable areas of the GTA during 2013 and a shift in mix from single-family to high-rise units as reflected in the increase in the number of homes closed.

Land Closings Revenue

	Year Ended December 31,		
(In thousands)	**2013**	**2012**	**Change**
East	$ 22,720	$ 28,837	(21.2)%
West	5,040	4,286	17.6
Subtotal U.S.	$ 27,760	$ 33,123	(16.2)%
Canada	121	11,285	(98.9)
Total	$ 27,881	$ 44,408	(37.2)%

Land closings revenue decreased 37.2% to $27.9 million in the year ended December 31, 2013, from $44.4 million in the year ended December 31, 2012. We generally purchase land and lots with the intent to build and sell homes on them. However, in some locations where we act as a developer, we occasionally purchase land that includes commercially zoned parcels, which we typically sell to commercial developers. We also sell residential lots or land parcels to manage our land and lot supply on larger tracts of land for which we would otherwise not achieve financial returns that are in line with internal expectations based on longer development timelines. During 2013 we recorded various land sales in our Phoenix, Northern California, Houston, Dallas, Austin and Canadian markets as part of planned dispositions relating to development. Land and lot sales occur at various intervals and varying degrees of profitability. Therefore, the revenue and gross margin from land closings fluctuate from period to period.

Home Closings Gross Margin

The following table sets forth a reconciliation between our home closings gross margin and our adjusted home closings gross margin. Adjusted gross margins are non-GAAP financial measures calculated based on gross margins, excluding impairments and capitalized interest amortization. See *Non-GAAP Measures Adjusted gross margins* of this MD&A.

	Year Ended December 31,	
(In thousands)	**2013**	**2012**
Home closings revenue	$ 2,264,985	$ 1,369,452

Cost of home closings	1,774,761	1,077,525
Home closings gross margin	$ 490,224	$ 291,927
Capitalized interest amortization	50,224	28,757
Adjusted home closings gross margin	$ 540,448	$ 320,684
Home closings gross margin %	21.6%	21.3%
Adjusted home closings gross margin %	23.9%	23.4%

Our home closings gross margin increased in the year ended December 31, 2013 to $490.2 million, from $291.9 million in the year ended December 31, 2012. As a percentage of revenue, our home closings gross margin increased 30 basis points, to 21.6% in the year ended December 31, 2013 from 21.3% in the year ended December 31, 2012. The increase in home closings gross margin percentage in the year ended December 31, 2013 was primarily due to a shift to higher

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margin product mix across our U.S. markets, particularly in the Northern California, Austin and Phoenix markets, where our move-up and luxury homes produced higher margins in the improving markets. Consumer demand in these areas allowed continued price increases and we were able to achieve higher margins than in the prior year period. Our price increases generally exceed construction and land price increases in our markets to date. Our Canada home closings gross margin decreased in 2013 as we benefited in 2012 from higher average selling prices and higher margin communities closed in 2012.

Adjusted home closings gross margin increased by 68.5% to $540.4 million in the year ended December 31, 2013, from $320.7 million in the year ended December 31, 2012, and as a percentage of home closings revenue increased by 50 basis points, to 23.9%. The increase in adjusted home closings gross margin percentage was primarily due to our increased margins in the aforementioned markets.

Segment Gross Margins

East Segment

The following table sets forth a reconciliation between our East segment gross margins (home closings, land closings and home and land closings) and our corresponding East segment adjusted gross margins. See *Non-GAAP Measures Adjusted gross margins* of this MD&A.

	Year Ended December 31,	
(In thousands)	**2013**	**2012**
Home Closings		
Home closings revenue	$ 1,094,578	$ 529,686
Cost of home closings	867,053	421,204
Home closings gross margin	$ 227,525	$ 108,482
Capitalized interest amortization	15,310	9,409
Adjusted home closings gross margin	$ 242,835	$ 117,891
Home closings gross margin %	20.8%	20.5%
Adjusted home closings gross margin %	22.2%	22.3%
Land Closings		
Land closings revenue	$ 22,720	$ 28,837
Cost of land closings	22,549	25,895
Land gross margin	$ 171	$ 2,942
Capitalized interest amortization	631	1,497
Land adjusted gross margin	$ 802	$ 4,439
Land gross margin %	0.8%	10.2%
Land adjusted gross margin %	3.5%	15.4%

Home and Land Closings		
Home and land closings revenue	$ 1,117,298	$ 558,523
Cost of home and land closings	889,602	447,099
Gross margin	$ 227,696	$ 111,424
Capitalized interest amortization	15,941	10,906
Adjusted gross margin	$ 243,637	$ 122,330
Gross margin %	20.4%	19.9%
Adjusted gross margin %	21.8%	21.9%

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For the year ended December 31, 2013, the acquisition of Darling Homes and its integration into our operations accounted for a significant portion of the increases in our East segment home closings revenue, home closings gross margin and adjusted home closings gross margin. During the year ended December 31, 2013, home closings revenue in the East segment was $1.1 billion, an increase of 106.6% compared to the year ended December 31, 2012. The increase was driven by an increase in home closings of 75.4% to 2,913 homes, compared to 1,661 homes in the prior year. The continued improvement throughout the East segment markets, as well as favorable home buyer demand for communities opened in prior periods also contributed to closing revenue increases. The number of average active selling communities in the East segment increased 61.8% to 121 communities in the year ended December 31, 2013 from 75 communities in the prior year. Net homes sold increased by 56.7% to 3,255 homes, compared to 2,077 homes in the prior period, driving sales order value higher by 82.9% to $1.3 billion compared to $692.3 million for the year ended December 31, 2012. Sales order cancellation rates in the East segment declined to 14.1% in the year ended December 31, 2013, compared to 14.9% in the prior year. The East segment also had an average monthly sales pace of 2.2 homes per community in the year ended December 31, 2013, which is consistent with the year ended December 31, 2012. Average home closings sales price in the East segment increased 17.8% to $376,000, from $319,000 in the prior year from a combination of price appreciation and product mix. The average sales order price also increased by $56,000, or 16.7% as management in this segment diligently looks to reduce customer incentives and other promotions, and increases sales prices as market conditions allow. Backlog sales value in the East segment increased 40.8% in the year ended December 31, 2013 over the prior year due to a 28.5% increase in backlog units and a 9.6% increase in the average sales price of backlog homes. The increase in backlog units is due primarily to the addition of Darling in December 2012. Overall, the improvement in East segment home closings revenue, sales prices and sales pace has been due primarily to our well-located land positions, an increase in active selling communities and our consumer-driven offerings.

During the year ended December 31, 2013, home closings gross margin for the East segment was 20.8%, up 30 basis points from 20.5% for the year ended December 31, 2012. East segment adjusted home closings gross margin was 22.2% in the year ended December 31, 2013 consistent with 22.3% for the same period in 2012. We recorded purchase accounting adjustments on the assets acquired in the Darling Acquisition that reduced home closings gross margin percentage in earlier quarters that were offset eventually by sales price increases. Our Austin and North Florida divisions recorded the largest increases in home closings gross margin percentage, but all divisions recorded some levels of increase. The recovery and improved stabilization of the West Florida market, which has recently tended to generate lower home closings margins, began when sustained consumer demand returned in the Tampa and Ft. Myers areas of Florida, and we were able to leverage land with a low cost basis and produce homes at a higher price point than in the prior year. The Austin and Houston markets improved from the prior year, as we were able to increase prices on our move-up offerings and maintain stable land and construction costs. To the extent that the overall U.S. economic recovery and, in particular, the housing market recovery in our East segment markets continues, we expect that our margin performance will continue to be favorable.

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West Segment

The following table sets forth a reconciliation between our West segment gross margins (home closings, land closings and home and land closings) and our corresponding West segment adjusted gross margins. See *Non-GAAP Measures Adjusted gross margins* of this MD&A.

(In thousands)	Year Ended December 31, 2013	2012
Home Closings		
Home closings revenue	$ 763,372	$ 456,512
Cost of home closings	590,401	374,775
Home closings gross margin	$ 172,971	$ 81,737
Capitalized interest amortization	18,837	9,474
Adjusted home closings gross margin	$ 191,808	$ 91,211
Home closings gross margin %	22.7%	17.9%
Adjusted home closings gross margin %	25.1%	20.0%
Land Closings		
Land closings revenue	$ 5,040	$ 4,286
Cost of land closings	3,766	1,401
Land gross margin	$ 1,274	$ 2,885
Capitalized interest	115	32
Land adjusted gross margin	$ 1,389	$ 2,917
Land gross margin %	25.3%	67.3%
Land adjusted gross margin %	27.6%	68.1%
Home and Land Closings		
Home and land closings revenue	$ 768,412	$ 460,798
Cost of home and land closings	594,167	376,176
Gross margin	$ 174,245	$ 84,622
Capitalized interest	18,952	9,506
Adjusted gross margin	$ 193,197	$ 94,128
Gross margin %	22.7%	18.4%
Adjusted gross margin %	25.1%	20.4%

Home closing revenue in the West segment increased by $306.9 million in the year ended December 31, 2013 compared to the prior year. The 67.2% increase in home closing revenue was due to an 18.0% increase in average home closing selling price and a 41.7% increase in the number of homes closed. The West segment closed 1,803 homes in the year ended December 31, 2013 compared to 1,272 in the prior year. The number of average active

selling communities in the West segment increased 13.3% in the year ended December 31, 2013 when compared to the prior year. We sold 1,763 homes in the West segment in the year ended December 31, 2013, which represents a 6.1% increase compared to the same period last year. The availability of product and timing of releases within communities provided saleable inventory that was well-received by consumers. Net sales order value increased to $840.0 million from $612.4 million or 37.1%, in the year ended December 31, 2013 compared to the prior year. The average sales per community per month for the years ending December 31, 2013 and 2012 were 3.9 and 4.2, respectively. The average home closing selling price increased 18.0%, to $423,000 in the year ended December 31, 2013 compared to $359,000 in the prior year. Overall, during the year ended December 31, 2013, revenues improved in the West segment compared to the same period in 2012 primarily due to housing market recoveries and advances in the Phoenix and Northern California divisions. We continue to see strong demand in these markets and are systematically releasing product into the marketplace to capture and maintain increased operating margins, as evidenced by the 40.8% year-over-year increase in average sales price of our backlog homes. Backlog units in the West segment have decreased 6% from the prior year, although total backlog sales value has increased 32.3% due to the average sales price increase noted above.

During the year ended December 31, 2013, home closings gross margin for the West segment was 22.7%, up from 17.9% for the year ended December 31, 2012. Adjusted home closings gross margin in the West segment increased by 510 basis points in the year ended December 31, 2013, compared to the year ended December 31, 2012. The increase in home closings gross margin and adjusted home closings gross margin was primarily due to our ability to control our construction costs, while increasing our average home closing selling price by 18.0% in 2013 compared to 2012. All divisions increased gross margin percentage during the period. The Northern California and Phoenix divisions experienced the highest percentage of price increases during the year and also were able to contain construction costs as the volume of construction within our communities in those markets allowed us to effectively manage cost pressures on construction materials and labor. If the recovery in our West segment markets continues, we expect that our margin performance will continue to be favorable. We believe that the backlog margins and magnitude in the West segment indicate that the recovery in that segment has become more well-established.

Canadian Segment

The following table sets forth a reconciliation between our Canada gross margins (home closings, land closings and home and land closings) and our corresponding Canada adjusted gross margins. See *Non-GAAP Measures   Adjusted gross margins* of this MD&A.

	Year Ended December 31,	
(In thousands)	**2013**	**2012**
Home Closings		
Home closings revenue	$ 407,035	$ 383,254
Cost of home closings	317,307	281,546
Home closings gross margin	$ 89,728	$ 101,708
Capitalized interest amortization	16,077	9,874
Adjusted home closings gross margin	$ 105,805	$ 111,582
Home closings gross margin %	22.0%	26.5%
Adjusted home closings gross margin %	26.0%	29.1%
Land Closings		
Land closings revenue	$ 121	$ 11,285
Cost of land closings	426	8,588
Land gross margin	$ (305)	$ 2,697
Capitalized interest		30
Land adjusted gross margin	$ (305)	$ 2,727
Land gross margin %	(252.1)%	23.9%
Land adjusted gross margin %	(252.1)%	24.2%
Home and Land Closings		
Home and land closings revenue	$ 407,156	$ 394,539
Cost of home and land closings	317,733	290,134

Gross margin	$ 89,423	$ 104,405
Capitalized interest	16,077	9,904
Adjusted gross margin	$ 105,500	$ 114,309
Gross margin %	22.0%	26.5%
Adjusted gross margin %	25.9%	29.0%

Canada segment home closings revenue for the year ended December 31, 2013 increased by 6.2% to $407.0 million, compared to $383.3 million for the year ended December 31, 2012. The number of home closing units in the year ended December 31, 2013 increased by 31.1% compared to the year ended December 31, 2012. Canada segment revenues and number of closings were affected by the timing of high-rise closings. In the year ended December 31, 2012, we began closing one joint venture tower, Nautilus, which had 382 of its 389 units close in the period, accounting for more than

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$8.1 million in joint venture income, while in 2013, we recognized $27.0 million of joint venture income on 862 of 879 units from closings at our joint venture high-rise buildings Couture and Encore. Income from joint venture closings is included as a component of equity in income of unconsolidated entities and not included in homebuilding revenue. During the year ended December 31, 2013 we closed 422 of 423 units in our wholly owned tower Ultra, which produced $104.3 million of revenue. The average home closings sales price was 19.0% lower for the year ended December 31, 2013 when compared to the same period last year. This decrease was due to a product mix shift into move-up communities located in affordable areas of the GTA during 2013 and a shift in mix between single-family and high-rise units. The Canada segment experienced a decline of 148 units in net new homes sold in the year ended December 31, 2013 when compared to the same period last year, which is attributable to the timing of high-rise sales launches, the close-out of some historically higher volume communities and new product availability. The decline in home sales from a tempered sales pace and a product mix change have contributed to the reduced aggregate sales values during 2013. Our total sales value in the year ended December 31, 2013 was $265.4 million compared to $309.6 million in the prior year period. Average sales price increased by $29,000 or 7.0%, and average sales value declined 14.3% when comparing the year ended December 31, 2013 to the year ended December 31, 2012. The average sales per community per month were 3.4 and 4.4 for the years ended December 31, 2013 and 2012, respectively. We believe 2013 represents a normalized pace in the segment. We continue to implement our margin over volume approach to selling in our communities.

Home closings gross margin for the year ended December 31, 2013 for the Canada segment was 22.0%, compared to 26.5% for the year ended December 31, 2012. The adjusted home closings gross margin for the Canada segment was 310 basis points lower in 2013, when compared to 2012. The decreases in home closings gross margin and adjusted home closings gross margin were due to a shift in product sales, as more wholly owned multi-family units closed during 2013, whereas legacy single family products with favorable cost basis closed out during 2012. Currently we anticipate, in light of slowing job growth in Ontario relative to the recent past, ongoing global economic uncertainty and increasing units under construction, that growth in the Ontario housing market will moderate in the near term and return to paces and prices that more closely resemble the long-term historical averages.

Mortgage Operations

Our Mortgage Operations segment, which provides mortgage lending through TMHF and title services through various joint ventures in our Florida markets, is highly dependent on our sales and closings volumes.

	Year Ended December 31,	
(In thousands)	**2013**	**2012**
Mortgage operations revenue	$ 30,371	$ 21,861
Mortgage operations expense	16,446	11,266
Mortgage operations gross margin	$ 13,925	$ 10,595
Impairments		
Adjusted mortgage operations gross margin	$ 13,925	$ 10,595
Mortgage operations margin %	45.8%	48.5%
Adjusted mortgage operations margin %	45.8%	48.5%

Our Mortgage Operations segment s revenue increased from $21.9 million in the year ended December 31, 2012 to $30.4 million in the year ended December 31, 2013, due primarily to increased closings volume and average loan amounts. The decrease in gross margin was due primarily to increases in mortgage underwriting costs driven by increased staffing for compliance initiatives as well as increased costs to integrate Darling. Our capture rate of 78% was down slightly from the prior period as we transitioned our Darling Homes operations from the legacy provider to TMHF.

Sales, Commissions and Other Marketing Costs

For the year ended December 31, 2013 and 2012, sales, commissions, and other marketing costs such as advertising and sales office expenses were $142.8 million and $80.9 million, respectively, which is a 76.6% increase year over year. This increase reflects a 54.1% increase in homes closed (excluding joint ventures) as well as an increase in average selling price. Our U.S. segments tend to have higher per-unit commissions, so our mix of commissions paid moved in

tandem with our U.S. operations, where we closed 60.8% more homes in the year ended December 31, 2013 as compared to the same period in 2012. Additionally, our Canadian high-rise closings bear the cost of a real estate broker commission while the single family Canadian closings generally do not have these commissions. As a percentage of home sales revenue, sales commissions and other marketing costs increased to 6.3% from 5.9% for the year ended December 31, 2013 and 2012 respectively. An increase in external commissions paid and a higher selling cost structure at Darling, added to the increase year over year as consumers leveraged outside professionals more prominently than in the prior period.

General and Administrative Expenses

For the year ended December 31, 2013, general and administrative expenses were $90.7 million as compared to $60.4 million in the same period in 2012, which represents a 50.1% increase. General and administrative expenses were 3.9% as a percentage of total revenue in the year ended December 31, 2013, compared to 4.2% in the same period in 2012 due to our diligent cost containment strategy as we pursue synergies within the business relating to our recent acquisition. We were also able to leverage our existing infrastructure while increasing closings by 54.1%. We recorded $2.9 million of expense for the options and restricted stock units granted in connection with our IPO and grants under our equity compensation plan during the remainder of the year. There are no comparable amounts in the corresponding prior period. In 2012, we recorded a discrete reversal of legal accruals related to a favorable legal settlement of $9.1 million. Excluding the legal reversal in 2012, general and administrative expenses were 5.7% of total revenue.

Equity in Income of Unconsolidated Entities

Equity in income of unconsolidated entities was $37.6 million for the year ended December 31, 2013 compared to $23.0 million for the year ended December 31, 2012. Our joint venture income comes largely from the Nautilus, Encore and Couture high-rises and single family projects in our Canada segment. During the comparative periods we experienced similar margins but recognized 86.2% more closings in 2013 with a larger proportion of these closings in high rise buildings, which generally have lower margins than our low rise product.

Interest (Income) Expense, net

Interest expense represents interest incurred, but not capitalized, on our long-term debt and other borrowings. Purchase accounting from the Acquisition eliminated the accumulated capitalized interest on the balance sheet as of the Acquisition date. Interest (income) expense, net for the years ending December 31, 2013 and 2012, was $0.5 million of income and $2.4 million of income, respectively.

Loss on Extinguishment of Debt

During 2012, we prepaid $350.0 million of the Sponsor Loan with proceeds from the 2020 Senior Notes issued in April 2012. The remaining $150.0 million of the Sponsor Loan was exchanged for equity interests. The amount of the Sponsor Loan that was retired had been borrowed at a discount of 2.5% and consequently, the $7.9 million of unamortized portion of the discount was written off during 2012 to expense.

On April 12, 2013, we used $204.2 million of the net proceeds of the IPO, which were contributed to the Bond Co-Issuers, to redeem $189.6 million aggregate principal amount of 2020 Senior Notes (at a purchase price equal to 103.875% of their principal amount, plus accrued and unpaid interest of $7.3 million through the date of redemption). We wrote off $4.6 million of unamortized issuance costs, expensed $1.8 million of original issue premium and incurred a call premium of $7.3 million related to the redemption. These costs are included in the $10.1 million loss

on extinguishment of debt in the accompanying Consolidated and Combined Statements of Operations for the year ended December 31, 2013.

Other Expense (Income), net

Other expense (income), net for the year ended December 31, 2013 was $2.5 million of expense compared to $3.6 million of expense in the year ended December 31, 2012. This expense is related to mothball community expense, pre-acquisition costs on unpursued land projects and captive insurance claims costs.

Indemnification and Transaction Expense

The Predecessor Parent Company has indemnified TMM Holdings for specific uncertain tax positions existing as of the date of the Acquisition. An indemnification receivable of $129.7 million was recorded at the time of the Acquisition. The indemnification receivable also includes a periodic increase for accrued interest, penalties, and additional identified tax issues covered by the indemnity, offset by periodic decreases as uncertain tax matters and related tax obligations are resolved. The receivable due from the Predecessor Parent Company for the indemnification was valued at the same amount as the estimated income tax liability. During the year ended December 31, 2013 and 2012, $88.5 million and $12.3 million of the indemnification receivable was written off due to successful settlement of tax positions that were subject to the Predecessor Parent Company indemnification. The uncertain tax position was reversed simultaneously in our tax provision during each period.

During the year ended December 31, 2013, we also incurred $29.8 million of expense related to the termination of the management services agreements between us and the Principal Equityholders as part of the Reorganization Transactions. Additionally, we incurred $80.2 million of non-cash stock compensation expense for the modification of the TMM Holdings Class J Units which were exchanged for units in the TPG and Oaktree Holding Vehicles. The change was related to the termination of the JHI Services Agreement. See *Item 1 Business Recent Developments Reorganization Transactions* of this Annual Report.

Income Tax Provision

Our effective tax rate for the year ended December 31, 2013 and 2012 was composed of the statutory tax rates in the U.S. and Canada and was affected primarily by state income taxes, the recognition of previously unrecognized tax benefits, the establishment of uncertain tax positions, and interest relating to uncertain tax positions. In addition, the IPO and Reorganization Transactions also resulted in an increase to our effective tax rate for the year ended December 31, 2013 due to certain non-deductible charges related to modification of the Class J Units of TMM Holdings and incremental U.S. tax as a result of our structure after the IPO.

During the year ended December 31, 2013, we accepted a settlement offer related to Taylor Woodrow Holdings (USA) Inc. for the 2008 and 2009 tax years. As a result, $102.0 million of our previously unrecognized indemnified tax positions including interest and penalties were recognized during the year ended December 31, 2013.

As of December 31, 2013, our cumulative gross unrecognized tax benefits were $2.1 million in the U.S. and $7.9 million in Canada and all unrecognized tax benefits, if recognized, would affect the effective tax rate. As of December 31, 2012, our cumulative gross unrecognized tax benefits were $85.7 million in the U.S. and $9.8 million in Canada. These amounts are included in income taxes payable in the accompanying Consolidated and Combined Balance Sheets at December 31, 2013 and December 31, 2012. None of the unrecognized tax benefits are expected to reverse in the next 12 months.

For further information, see *Note 11 Income Taxes* in the Notes to the Consolidated and Combined Financial Statements in Item 8 of this Annual Report.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Data for the year ended December 31, 2011 represents the arithmetic sum of predecessor and TMHC results while data for the year ended December 31, 2012 represent TMHC results, except where noted.

Average Active Selling Communities

	Year Ended December 31,		
	2012	2011	Change
East	74.6	82.6	(9.7)%
West	33.2	37.6	(11.7)
Subtotal U.S.	107.8	120.2	(3.1)%
Canada	14.0	14.4	(3.1)
Subtotal North America	121.8	134.6	(9.5)%
Unconsolidated joint ventures [1]	6.9	5.3	30.5
Total	128.7	139.9	(8.0)%

(1) Represents the average number of total communities in which our joint ventures were actively selling during the period.

Average active selling communities declined 8.0% from the year ended December 31, 2011 to the year ended December 31, 2012 with the largest decrease in the West segment, primarily due to the close out of some vintage selling communities during the ordinary course of business and the timing of new community openings coming to market. We opened new communities throughout all of our markets during 2013, mostly in our West Florida, Phoenix and Houston divisions, where demand and our land positions afforded us the opportunity. We recognized home closings in 2013 from the communities we opened during that period.

Net Sales Orders

	Year Ended December 31, [1]								
(Dollars in thousands)	**Net Homes Sold**			**Sales Value**			**Average Selling Price**		
	2012	**2011**	**Change**	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
East	2,077	1,617	28.4%	$ 692,287	$ 498,445	38.9%	$ 333	$ 308	8.1%
West	1,661	947	75.4	612,428	320,907	90.8	369	339	8.8
Subtotal U.S.	3,738	2,564	45.8%	$ 1,304,715	$ 819,352	59.2%	$ 349	$ 320	9.1%
Canada	744	1,420	(47.6)	309,584	512,037	(39.5)	416	361	15.4
	4,482	3,984	12.5%	$ 1,614,299	$ 1,331,389	21.2%	$ 360	$ 334	7.8%

Subtotal North America									
Unconsolidated joint ventures [2]	360	145	147.9	82,845	32,876	152.0	230	227	1.6
Total	4,842	4,129	17.3%	$ 1,697,144	$ 1,364,265	24.4%	$ 351	$ 330	6.1%

(1) Net sales orders represent the number and dollar value of new sales contracts executed with customers. High-rise sales are generally not recognized until a building is approved for construction. High-rise sales typically do not close in the year sold. Other sales are recognized after a contract is signed and the rescission period has ended.

(2) Includes only proportionate share of unconsolidated joint ventures.

The value of net sales orders, including those of unconsolidated joint ventures, increased by 24.4% to $1.697 billion (4,842 homes) in the year ended December 31, 2012, from $1.364 billion (4,129 homes) in the year ended December 31, 2011. The number of net sales orders, including those of unconsolidated joint ventures, increased 17.3% in the year ended December 31, 2012 compared to the year ended December 31, 2011. These results were impacted by the strong demand in the spring and summer selling seasons in 2012, during which we benefited from higher selling prices as consumers in the market gained confidence in the values present in the marketplace. The improved market in the U.S. in

areas such as Phoenix, West Florida and Northern California resulted in an increase in the number of units sold and related revenue for the year ended December 31, 2012 over the prior year. The Canada segment experienced a decline of 676 units in net new homes sold in the year ended December 31, 2012 when compared to the same period in 2011, which is attributable to the lower number of wholly owned open communities in the segment in the year ended December 31, 2012, and product mix.

Sales Order Cancellations Units

	Year Ended December 31,			
	Cancelled Sales Orders		Cancellation Rate[1]	
	2012	2011	2012	2011
East	363			