

New Home Co Inc.
Form 10-Q
October 27, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017 or

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

For the transition period from _____ to _____
Commission File Number 001-36283

The New Home Company Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware 27-0560089
(State or other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)
85 Enterprise, Suite 450
Aliso Viejo, California 92656
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code (949) 382-7800
Not Applicable
(Former name,
former address
and former fiscal
year, if changed
since last report)

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

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

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

Large accelerated filer Non-accelerated filer (Do not check if smaller reporting company) Accelerated filer Smaller reporting company

Emerging growth
company

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

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

Registrant's shares of common stock outstanding as of October 25, 2017: 20,876,623

THE NEW HOME COMPANY INC.
 FORM 10-Q
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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

THE NEW HOME COMPANY INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Dollars in thousands, except par value amounts)

	September 30, 2017 (Unaudited)	December 31, 2016
Assets		
Cash and cash equivalents	\$ 62,443	\$ 30,496
Restricted cash	213	585
Contracts and accounts receivable	14,446	27,833
Due from affiliates	554	1,138
Real estate inventories	478,541	286,928
Investment in and advances to unconsolidated joint ventures	56,814	50,857
Other assets	25,096	21,299
Total assets	\$ 638,107	\$ 419,136
Liabilities and equity		
Accounts payable	\$ 36,078	\$ 33,094
Accrued expenses and other liabilities	30,684	23,418
Unsecured revolving credit facility	—	118,000
Senior notes, net	318,452	—
Total liabilities	385,214	174,512
Commitments and contingencies (Note 10)		
Equity:		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, no shares outstanding	—	—
Common stock, \$0.01 par value, 500,000,000 shares authorized, 20,876,623 and 20,712,166, shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively	209	207
Additional paid-in capital	198,757	197,161
Retained earnings	53,836	47,155
Total stockholders' equity	252,802	244,523
Noncontrolling interest in subsidiary	91	101
Total equity	252,893	244,624
Total liabilities and equity	\$ 638,107	\$ 419,136

See accompanying notes to the unaudited condensed consolidated financial statements.

THE NEW HOME COMPANY INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues:				
Home sales	\$ 114,622	\$ 125,142	\$ 280,957	\$ 246,281
Fee building, including management fees from unconsolidated joint ventures of \$1,324, \$1,539, \$3,755 and \$6,251, respectively	43,309	52,761	146,107	125,726
	157,931	177,903	427,064	372,007
Cost of Sales:				
Home sales	95,992	105,799	238,545	211,859
Home sales impairments	—	—	1,300	—
Fee building	41,808	50,832	141,633	120,063
	137,800	156,631	381,478	331,922
Gross Margin:				
Home sales	18,630	19,343	41,112	34,422
Fee building	1,501	1,929	4,474	5,663
	20,131	21,272	45,586	40,085
Selling and marketing expenses	(6,860)	(6,055)	(18,237)	(14,577)
General and administrative expenses	(6,465)	(6,468)	(17,150)	(17,476)
Equity in net income of unconsolidated joint ventures	99	488	606	4,428
Other income (expense), net	69	(195)	34	(590)
Income before income taxes	6,974	9,042	10,839	11,870
Provision for income taxes	(2,656)	(3,465)	(4,168)	(4,718)
Net income	4,318	5,577	6,671	7,152
Net (income) loss attributable to noncontrolling interest	—	(30)	10	90
Net income attributable to The New Home Company Inc.	\$4,318	\$5,547	\$6,681	\$7,242
Earnings per share attributable to The New Home Company Inc.:				
Basic	\$0.21	\$0.27	\$0.32	\$0.35
Diluted	\$0.21	\$0.27	\$0.32	\$0.35
Weighted average shares outstanding:				
Basic	20,876,315	20,711,952	20,839,507	20,675,233
Diluted	20,999,673	20,797,731	20,949,499	20,764,480
See accompanying notes to the unaudited condensed consolidated financial statements.				

THE NEW HOME COMPANY INC.
 CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
 (Dollars in thousands)
 (Unaudited)

	Stockholders' Equity				Total Stockholders' Equity	Noncontrolling Interest in Subsidiary	Total Equity
	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings			
Balance at December 31, 2015	20,543,130	\$ 205	\$ 194,437	\$ 26,133	\$ 220,775	\$ 922	\$ 221,697
Net income (loss)	—	—	—	7,242	7,242	(90)	7,152
Noncontrolling interest distribution	—	—	—	—	—	(725)	(725)
Stock-based compensation expense	—	—	2,602	—	2,602	—	2,602
Shares net settled with the Company to satisfy minimum employee personal income tax liabilities resulting from share based compensation plans	(62,467)	—	(647)	—	(647)	—	(647)
Excess tax provision from stock-based compensation	—	—	(97)	—	(97)	—	(97)
Shares issued through stock plans	231,289	2	(2)	—	—	—	—
Balance at September 30, 2016	20,711,952	\$ 207	\$ 196,293	\$ 33,375	\$ 229,875	\$ 107	\$ 229,982
Balance at December 31, 2016	20,712,166	\$ 207	\$ 197,161	\$ 47,155	\$ 244,523	\$ 101	\$ 244,624
Net income (loss)	—	—	—	6,681	6,681	(10)	6,671
Stock-based compensation expense	—	—	2,086	—	2,086	—	2,086
Shares net settled with the Company to satisfy minimum employee personal income tax liabilities resulting from share based compensation plans	(55,962)	—	(590)	—	(590)	—	(590)
Shares issued through stock plans	220,419	2	100	—	102	—	102
Balance at September 30, 2017	20,876,623	\$ 209	\$ 198,757	\$ 53,836	\$ 252,802	\$ 91	\$ 252,893

See accompanying notes to the unaudited condensed consolidated financial statements.

THE NEW HOME COMPANY INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
Operating activities:		
Net income	\$6,671	\$7,152
Adjustments to reconcile net income to net cash used in operating activities:		
Deferred taxes	(54)	1,181
Amortization of equity based compensation	2,086	2,602
Excess income tax provision from stock-based compensation	—	97
Distributions of earnings from unconsolidated joint ventures	1,588	1,931
Inventory impairments	1,300	—
Equity in net income of unconsolidated joint ventures	(606)	(4,428)
Deferred profit from unconsolidated joint ventures	560	541
Depreciation	344	381
Abandoned project costs	238	498
Net changes in operating assets and liabilities:		
Restricted cash	372	11
Contracts and accounts receivable	13,448	2,717
Due from affiliates	504	91
Real estate inventories	(179,607)	(159,778)
Other assets	(3,766)	(4,894)
Accounts payable	2,859	11,927
Accrued expenses and other liabilities	(6,257)	(6,430)
Due to affiliates	—	(293)
Net cash used in operating activities	(160,320)	(146,694)
Investing activities:		
Purchases of property and equipment	(145)	(379)
Cash assumed from joint venture at consolidation	995	2,009
Contributions and advances to unconsolidated joint ventures	(21,296)	(7,707)
Distributions of capital and repayment of advances to unconsolidated joint ventures	13,650	13,977
Interest collected on advances to unconsolidated joint ventures	468	—
Net cash provided by (used in) investing activities	(6,328)	7,900
Financing activities:		
Borrowings from credit facility	72,000	193,000
Repayments of credit facility	(190,000)	(38,000)
Proceeds from senior notes	324,465	—
Borrowings from other notes payable	—	343
Repayments of other notes payable	—	(15,636)
Payment of debt issuance costs	(7,382)	(1,064)
Cash distributions to noncontrolling interest in subsidiary	—	(725)
Minimum tax withholding paid on behalf of employees for stock awards	(590)	(647)
Excess income tax provision from stock-based compensation	—	(97)
Proceeds from exercise of stock options	102	—
Net cash provided by financing activities	198,595	137,174

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Net increase (decrease) in cash and cash equivalents	31,947	(1,620)
Cash and cash equivalents – beginning of period	30,496	45,874
Cash and cash equivalents – end of period	\$62,443	\$44,254

See accompanying notes to the unaudited condensed consolidated financial statements.

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THE NEW HOME COMPANY INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Organization

The New Home Company Inc. (the “Company”), a Delaware corporation, and its subsidiaries are primarily engaged in all aspects of residential real estate development, including acquiring land and designing, constructing and selling homes in California and Arizona.

Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts have been eliminated upon consolidation.

The accompanying unaudited condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. The accompanying unaudited condensed financial statements include all adjustments (consisting of normal recurring entries) necessary for the fair presentation of our results for the interim period presented. Results for the interim period are not necessarily indicative of the results to be expected for the full year.

Unless the context otherwise requires, the terms “we”, “us”, “our” and “the Company” refer to the Company and its wholly owned subsidiaries, on a consolidated basis.

Use of Estimates

The preparation of the Company’s consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the accompanying condensed consolidated financial statements and notes. Accordingly, actual results could differ materially from these estimates.

Segment Reporting

Accounting Standards Codification (“ASC”) 280, Segment Reporting (“ASC 280”) established standards for the manner in which public enterprises report information about operating segments. In accordance with ASC 280, we have determined that our homebuilding division and our fee building division are our operating segments, which are also our reportable segments.

Cash and Cash Equivalents

We define cash and cash equivalents as cash on hand, demand deposits with financial institutions, and short term liquid investments with a maturity date of less than three months from the date of purchase.

Restricted Cash

Restricted cash of \$0.2 million and \$0.6 million as of September 30, 2017 and December 31, 2016, respectively, is held in accounts for payments of subcontractor costs incurred in connection with various fee building projects.

Real Estate Inventories and Cost of Sales

We capitalize pre-acquisition, land, development and other allocated costs, including interest, property taxes and indirect construction costs. Pre-acquisition costs, including non-refundable land deposits, are expensed to other income (expense), net if we determine continuation of the prospective project is not probable.

Land, development and other common costs are typically allocated to real estate inventories using a methodology that approximates the relative-sales-value method. Home construction costs per production phase are recorded using the specific identification method. Cost of sales for homes closed includes the estimated total construction costs of each home at completion and an allocation of all applicable land acquisition, land development and related common costs (both incurred and estimated to be incurred) based upon the relative-sales-value of the home within each project. Changes in estimated development and common costs are allocated prospectively to remaining homes in the project.

In accordance with Accounting Standards Codification ("ASC") 360, Property, Plant and Equipment ("ASC 360"), inventory is stated at cost, unless the carrying amount is determined not to be recoverable, in which case inventory is written

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

down to its fair value. We review each real estate asset on a periodic basis or whenever indicators of impairment exist. Real estate assets include projects actively selling and projects under development or held for future development. Indicators of impairment include, but are not limited to, significant decreases in local housing market values and selling prices of comparable homes, significant decreases in gross margins or sales absorption rates, costs significantly in excess of budget, and actual or projected cash flow losses.

If there are indicators of impairment, we perform a detailed budget and cash flow review of the applicable real estate inventories to determine whether the estimated remaining undiscounted future cash flows of the project are more or less than the asset's carrying value. If the undiscounted estimated future cash flows are more than the asset's carrying value, no impairment adjustment is required. However, if the undiscounted estimated future cash flows are less than the asset's carrying value, the asset is deemed impaired and is written down to fair value.

When estimating undiscounted estimated future cash flows of a project, we make various assumptions, including: (i) expected sales prices and sales incentives to be offered, including the number of homes available, pricing and incentives being offered by us or other builders in other projects, and future sales price adjustments based on market and economic trends; (ii) expected sales pace and cancellation rates based on local housing market conditions, competition and historical trends; (iii) costs expended to date and expected to be incurred including, but not limited to, land and land development costs, home construction costs, interest costs, indirect construction and overhead costs, and selling and marketing costs; (iv) alternative product offerings that may be offered that could have an impact on sales pace, sales price and/or building costs; and (v) alternative uses for the property.

Many assumptions are interdependent and a change in one may require a corresponding change to other assumptions. For example, increasing or decreasing sales absorption rates has a direct impact on the estimated per unit sales price of a home, the level of time sensitive costs (such as indirect construction, overhead and carrying costs), and selling and marketing costs (such as model maintenance costs and advertising costs). Depending on the underlying objective of the project, assumptions could have a significant impact on the projected cash flow analysis. For example, if our objective is to preserve operating margins, our cash flow analysis will be different than if the objective is to increase the velocity of sales. These objectives may vary significantly from project to project and over time.

If real estate assets are considered impaired, the impairment adjustments are calculated by determining the amount the asset's carrying value exceeds its fair value. We calculate the fair value of real estate projects using a land residual value analysis or a discounted cash flow analysis. Under the land residual value analysis, we estimate what a willing buyer would pay and what a willing seller would sell a parcel of land for (other than in a forced liquidation) in order to generate a market rate operating margin and return. Under the discounted cash flow method, the fair value is determined by calculating the present value of future cash flows using a risk adjusted discount rate. Critical assumptions that are included as part of these analyses include estimating future housing revenues, sales absorption rates, land development, construction and related carrying costs (including future capitalized interest), and all direct selling and marketing costs. This evaluation and the assumptions used by management to determine future estimated cash flows and fair value require a substantial degree of judgment, especially with respect to real estate projects that have a substantial amount of development to be completed, have not started selling or are in the early stages of sales, or are longer in duration. Actual revenues, costs and time to complete and sell a community could vary from these estimates which could impact the calculation of fair value of the asset and the corresponding amount of impairment that is recorded in our results of operations. For the nine months ended September 30, 2017, we recorded an impairment charge of \$1.3 million relating to one community in Southern California. For additional detail regarding the impairment charge, please see Note 4.

Capitalization of Interest

We follow the practice of capitalizing interest to real estate inventories during the period of development and to investments in unconsolidated joint ventures, when applicable, in accordance with ASC 835, Interest (“ASC 835”). Interest capitalized as a cost component of real estate inventories is included in cost of home sales as related homes or lots are sold. To the extent interest is capitalized to investment in unconsolidated joint ventures, it is included as a reduction of income from unconsolidated joint ventures when the related homes or lots are sold to third parties. To the extent our debt exceeds our qualified assets as defined in ASC 835, we expense a portion of the interest incurred by us. Qualified assets represent projects that are actively selling or under development as well as investments in unconsolidated joint ventures accounted for under the equity method until such equity investees begin their principal operations.

THE NEW HOME COMPANY INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Revenue Recognition

Home Sales and Profit Recognition

In accordance with ASC 360, revenue from home sales and other real estate sales are recorded and a profit is recognized when the respective homes are closed under the full accrual method. Home sales and other real estate sales are closed when all conditions of escrow are met, including delivery of the home or other real estate asset, title passes, appropriate consideration is received and collection of associated receivables, if any, is reasonably assured. Sales incentives are a reduction of revenues when the respective home is closed. The profit we record is based on the calculation of cost of sales, which is dependent on our allocation of costs, as described in more detail above in the section entitled “Real Estate Inventories and Cost of Sales.” When it is determined that the earnings process is not complete, the sale and related profit are deferred for recognition in future periods.

Fee Building

The Company enters into fee building agreements to provide services whereby it builds homes on behalf of third-party property owners. The third-party property owner funds all project costs incurred by the Company to build and sell the homes. The Company primarily enters into cost plus fee contracts where it charges third-party property owners for all direct and indirect costs plus a negotiated management fee. For these types of contracts, the Company recognizes revenue based on the actual total costs it has expended plus the applicable management fee. The management fee is typically a per-unit fixed fee or based on a percentage of the cost or home sales revenue of the project depending on the terms of the agreement with the third-party property owner. In accordance with ASC 605, Revenue Recognition (“ASC 605”), revenues from fee building services are recognized using a cost-to-cost approach in applying the percentage-of-completion method. Under this approach, revenue is earned in proportion to total costs incurred, divided by total costs expected to be incurred. The total estimated cost plus the management fee represents the total contract value. The Company recognizes revenue based on the actual labor and other direct costs incurred, plus the portion of the management fee it has earned to date. In the course of providing its services, the Company routinely subcontracts for services and incurs other direct costs on behalf of the property owners. These costs are passed through to the property owners and, in accordance with GAAP, are included in the Company’s revenue and cost of revenue.

The Company also enters into fee building and management contracts with third parties and its unconsolidated joint ventures where it provides construction supervision services, as well as sales and marketing services, and does not bear financial risks for any services provided. In accordance with ASC 605, revenues from these services are recognized over a proportional performance method or completed performance method. Under ASC 605, revenue is earned as services are provided in proportion to total services expected to be provided to the customer or on a straight line basis if the pattern of performance cannot be determined. Costs are recognized as incurred. Revenue recognition for any portion of the fees earned from these services that are contingent upon a financial threshold or specific event is deferred until the threshold is achieved or the event occurs.

The Company’s fee building revenues have historically been concentrated with a small number of customers. For the three and nine months ended September 30, 2017 and 2016, one customer comprised 97%, 97%, 97%, and 95% of fee building revenue, respectively. The balance of the fee building revenues represented management fees primarily earned from unconsolidated joint ventures. As of September 30, 2017 and December 31, 2016, one customer comprised 81% and 87% of contracts and accounts receivable, respectively, with the balance of accounts receivable primarily representing escrow receivables from home sales.

Variable Interest Entities

The Company accounts for variable interest entities in accordance with ASC 810, Consolidation (“ASC 810”). Under ASC 810, a variable interest entity (“VIE”) is created when: (a) the equity investment at risk in the entity is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties, including the equity holders; (b) the entity’s equity holders as a group either (i) lack the direct or indirect ability to make decisions about the entity, (ii) are not obligated to absorb expected losses of the entity or (iii) do not have the right to receive expected residual returns of the entity; or (c) the entity’s equity holders have voting rights that are not proportionate to their economic interests, and the activities of the entity involve or are conducted on behalf of the equity holder with disproportionately few voting rights.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Once we consider the sufficiency of equity and voting rights of each legal entity, we then evaluate the characteristics of the equity holders' interests, as a group, to see if they qualify as controlling financial interests. Our real estate joint ventures consist of limited partnerships and limited liability companies. For entities structured as limited partnerships or limited liability companies, our evaluation of whether the equity holders (equity partners other than us in each our joint ventures) lack the characteristics of a controlling financial interest includes the evaluation of whether the limited partners or non-managing members (the noncontrolling equity holders) lack both substantive participating rights and substantive kick-out rights, defined as follows:

Participating rights - provide the noncontrolling equity holders the ability to direct significant financial and operational decision made in the ordinary course of business that most significantly influence the entity's economic performance.

Kick-out rights - allow the noncontrolling equity holders to remove the general partner or managing member without cause.

If we conclude that any of the three characteristics of a VIE are met, including if equity holders lack the characteristics of a controlling financial interest because they lack both substantive participating rights and substantive kick-out rights, we conclude that the entity is a VIE and evaluate it for consolidation under the variable interest model.

If an entity is deemed to be a VIE pursuant to ASC 810, the enterprise that has both (i) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (ii) the obligation to absorb the expected losses of the entity or right to receive benefits from the entity that could be potentially significant to the VIE is considered the primary beneficiary and must consolidate the VIE.

Under ASC 810, a non-refundable deposit paid to an entity may be deemed to be a variable interest that will absorb some or all of the entity's expected losses if they occur. Our land purchase and lot option deposits generally represent our maximum exposure to the land seller if we elect not to purchase the optioned property. In some instances, we may also expend funds for due diligence, development and construction activities with respect to optioned land prior to takedown. Such costs are classified as real estate inventories, which we would have to write off should we not exercise the option. Therefore, whenever we enter into a land option or purchase contract with an entity and make a non-refundable deposit, a VIE may have been created.

As of September 30, 2017 and December 31, 2016, the Company was not required to consolidate any VIEs. In accordance with ASC 810, we perform ongoing reassessments of whether we are the primary beneficiary of a VIE.

Noncontrolling Interest

During 2013, the Company entered into a joint venture agreement with a third-party property owner. In accordance with ASC 810, the Company analyzed this arrangement and determined that it was not a VIE; however, the Company determined it was required to consolidate the joint venture as the Company has a controlling financial interest with the powers to direct the major decisions of the entity. As of September 30, 2017 and December 31, 2016, the third-party investor had an equity balance of \$0.1 million and \$0.1 million, respectively.

Investments in and Advances to Unconsolidated Joint Ventures

We use the equity method to account for investments in homebuilding and land development joint ventures that qualify as VIEs where we are not the primary beneficiary and other entities that we do not control but have the ability

to exercise significant influence over the operating and financial policies of the investee. The Company also uses the equity method when we function as the managing member or general partner and our venture partner has substantive participating rights or where we can be replaced by our venture partner as managing member without cause.

As of September 30, 2017, the Company concluded that none of its joint ventures were VIEs and accounted for these entities under the equity method of accounting.

Under the equity method, we recognize our proportionate share of earnings and losses generated by the joint venture upon the delivery of lots or homes to third parties. Our proportionate share of intra-entity profits and losses are eliminated until the related asset has been sold by the unconsolidated joint venture to third parties. We classify cash distributions received from equity method investees using the cumulative earnings approach consistent with Accounting Standards Update ("ASU") No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). Under the cumulative earnings approach, distributions received are considered returns on investment and shall be classified as

THE NEW HOME COMPANY INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

cash inflows from operating activities unless the cumulative distributions received exceed cumulative equity in earnings. When such an excess occurs, the current-period distribution up to this excess is considered a return of investment and shall be classified as cash inflows from investing activities. Our ownership interests in our unconsolidated joint ventures vary, but are generally less than or equal to 35%. The accounting policies of our joint ventures are consistent with those of the Company.

We review real estate inventory held by our unconsolidated joint ventures for impairment, consistent with our real estate inventories. We also review our investments in and advances to unconsolidated joint ventures for evidence of other-than-temporary declines in value. To the extent we deem any portion of our investment in and advances to unconsolidated joint ventures as not recoverable, we impair our investment accordingly. For the three and nine months ended September 30, 2017 and 2016, no impairments related to investment in and advances to unconsolidated joint ventures were recorded.

Selling and Marketing Expense

Selling and marketing costs incurred to sell real estate projects are capitalized to other assets in the accompanying condensed consolidated balance sheets if they are reasonably expected to be recovered from the sale of the project or from incidental operations, and are incurred for tangible assets that are used directly through the selling period to aid in the sale of the project or services that have been performed to obtain regulatory approval of sales. These capitalizable selling and marketing costs include, but are not limited to, model home design, model home decor and landscaping, and sales office/design studio setup. All other selling and marketing costs, such as commissions and advertising, are expensed in the period incurred and included in selling and marketing expense in the accompanying condensed consolidated statements of operations.

Warranty Accrual

We offer warranties on our homes that generally cover various defects in workmanship or materials, or structural construction defects for one year. In addition, we generally provide a more limited warranty, which generally ranges from a minimum of two years up to the period covered by the applicable statute of repose, that covers certain defined construction defects. Estimated future direct warranty costs are accrued and charged to cost of sales in the period when the related homebuilding revenues are recognized. Amounts are accrued based upon the Company's historical rates. In addition, the Company has received warranty payments from third-party property owners for certain of its fee building projects that have since closed-out where the Company has the contractual risk of construction. These payments are recorded as warranty accruals. We assess the adequacy of our warranty accrual on a quarterly basis and adjust the amounts recorded if necessary. Our warranty accrual is included in accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets and adjustments to our warranty accrual are recorded through cost of sales.

Contracts and Accounts Receivable

Contracts and accounts receivable primarily represent the fees earned, but not collected, and reimbursable project costs incurred in connection with fee building agreements. The Company periodically evaluates the collectability of its contracts receivable, and, if it is determined that a receivable might not be fully collectible, an allowance is recorded for the amount deemed uncollectible. This allowance for doubtful accounts is estimated based on management's evaluation of the contracts involved and the financial condition of its customers. Factors considered in such evaluations include, but are not limited to: (i) customer type; (ii) historical contract performance; (iii) historical

collection and delinquency trends; (iv) customer credit worthiness; and (v) general economic conditions. In addition to contracts receivable, escrow receivables are included in contracts and accounts receivable in the accompanying condensed consolidated balance sheets. As of September 30, 2017 and December 31, 2016, no allowance was recorded related to contracts and accounts receivable.

Property and Equipment

Property and equipment are recorded at cost and included in other assets in the accompanying condensed consolidated balance sheets and depreciated using the straight-line method over their estimated useful lives ranging from three to five years. Leasehold improvements are stated at cost and are amortized using the straight-line method over the shorter of either their estimated useful lives or the term of the lease.

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Income Taxes

Income taxes are accounted for in accordance with ASC 740, Income Taxes (“ASC 740”). The consolidated provision for, or benefit from, income taxes is calculated using the asset and liability method, under which deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Deferred tax assets are evaluated on a quarterly basis to determine if adjustments to the valuation allowance are required. In accordance with ASC 740, we assess whether a valuation allowance should be established based on the consideration of all available evidence using a “more likely than not” standard with respect to whether deferred tax assets will be realized. The ultimate realization of deferred tax assets depends primarily on the generation of future taxable income during the periods in which the differences become deductible. The value of our deferred tax assets will depend on applicable income tax rates. Judgment is required in determining the future tax consequences of events that have been recognized in our consolidated financial statements and/or tax returns. Differences between anticipated and actual outcomes of these future tax consequences could have a material impact on our consolidated financial statements.

ASC 740 defines the methodology for recognizing the benefits of uncertain tax return positions as well as guidance regarding the measurement of the resulting tax benefits. These provisions require an enterprise to recognize the financial statement effects of a tax position when it is more likely than not (defined as a likelihood of more than 50%), based on the technical merits, that the position will be sustained upon examination. In addition, these provisions provide guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The evaluation of whether a tax position meets the more-likely-than-not recognition threshold requires a substantial degree of judgment by management based on the individual facts and circumstances.

Stock-Based Compensation

We account for share-based awards in accordance with ASC 718, Compensation – Stock Compensation (“ASC 718”) and ASC 505-50, Equity – Equity Based Payments to Non-Employees (“ASC 505-50”).

ASC 718 requires that the cost resulting from all share-based payment transactions be recognized in a company's financial statements. ASC 718 requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee share ownership plans.

On June 26, 2015, the Company entered into an agreement that transitioned Joseph Davis' role within the Company from Chief Investment Officer to a non-employee consultant to the Company. On February 16, 2017, the Company entered into an agreement that transitioned Wayne Stelmar's role within the Company from Chief Investment Officer to a non-employee consultant and non-employee director. Per the agreements, Mr. Davis' and Mr. Stelmar's outstanding equity awards will continue to vest in accordance with their original terms. Under ASC 505-50, if an employee becomes a non-employee and continues to vest in an award pursuant to the award's original terms, that award will be treated as an award to a non-employee prospectively, provided the individual is required to continue providing services to the employer (such as consulting services). Based on the terms and conditions of both Mr. Davis' and Mr. Stelmar's consulting agreements noted above, we account for their share-based awards in accordance with ASC 505-50. ASC 505-50 requires that these awards be accounted for prospectively, such that the fair value of the awards will be re-measured at each reporting date until the earlier of (a) the performance commitment date or (b) the date the services required under the transition agreement with Mr. Davis or Mr. Stelmar have been completed. ASC 505-50 requires that compensation cost ultimately recognized in the Company's financial statements be the sum of (a)

the compensation cost recognized during the period of time the individual was an employee (based on the grant-date fair value) plus (b) the fair value of the award determined on the measurement date determined in accordance with ASC 505-50 for the pro-rata portion of the vesting period in which the individual was a non-employee. Mr. Davis' outstanding awards fully vested during January 2017 and were fully expensed.

Beginning January 1, 2017, the Company adopted ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The adoption of ASU 2016-09 had no effect on beginning retained earnings or any other components of equity or net assets. The Company has elected to apply the amendments in ASC 2016-09 related to the presentation of excess income tax provisions on the statement of cash flows using a prospective transition method resulting in no adjustment to the classification of the prior year excess income tax provision from stock-based compensation in the accompanying condensed consolidated statement of cash flows.

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Recently Issued Accounting Standards

The Company qualifies as an “emerging growth company” pursuant to the provisions of the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”). Section 102 of the JOBS Act provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, for complying with new or revised accounting standards. As previously disclosed, the Company has chosen, irrevocably, to “opt out” of such extended transition period, and as a result, will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which supersedes existing accounting literature relating to how and when a company recognizes revenue. Under ASU 2014-09, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. Additionally, ASU 2014-09 supersedes existing industry specific accounting literature relating to how a company expenses certain selling and marketing costs. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which delayed the effective date of ASU 2014-09 by one year. As a public company, ASU 2014-09 is effective for our interim and annual reporting periods beginning after December 15, 2017, and at that time, we expect to adopt the new standard under the modified retrospective approach.

Under the modified retrospective approach, we will recognize the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings. In anticipation of this adoption, we have developed an implementation plan and are working to identify significant changes to our financial statements and accounting policies. At this time, we do not believe the adoption of ASU 2014-09 will have a material impact on the amount of our revenues. We will continue to evaluate the impact that adoption of ASU 2014-09 will have on the timing of recognition of our revenues. Although we are still evaluating the accounting for selling and marketing costs under the new standard, adoption of ASU 2014-09 may impact the timing of recognition and classification of certain capitalized selling and marketing costs we incur to obtain sales contracts from our customers. Currently, these costs are capitalized and amortized to selling and marketing expenses as homes are delivered. Upon adoption of ASU 2014-09, portions of these costs directly attributable to a home that are determined to be recoverable, may be reclassified. The adoption of ASU 2014-09 by our unconsolidated joint ventures may impact the timing of recognition of income or loss allocations from these entities. We continue to evaluate the impact the adoption may have on other aspects of our business and on our consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”). ASU 2016-02 will require organizations that lease assets (referred to as “lessees”) to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under ASU 2016-02, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Lessor accounting remains substantially similar to current GAAP. In addition, disclosures of leasing activities are to be expanded to include qualitative along with specific quantitative information. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018. ASU 2016-02 mandates a modified retrospective transition method. The Company's lease contracts primarily consist of rental agreements for office space and copiers or printers where we are the lessee. The Company has begun the process of evaluating these lease contracts and believes all would be considered operating leases. Upon adoption, we expect to add a right-of-use asset and a lease liability to our consolidated balance sheet. The Company will recognize lease expense on a straight-line basis, consistent with our current policy for office rent. We are evaluating the impact of ASU 2016-02 and the potential effects it will have on our consolidated financial

statements.

In March 2016, the FASB issued ASU No. 2016-07, Investments- Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting ("ASU 2016-07"), which eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. Our adoption of ASU 2016-07 on January 1, 2017 did not have an effect on our condensed consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15. ASU 2016-15 provides guidance on how certain cash receipts and cash payments are to be presented and classified in the statement of cash flows. ASU 2016-15 is effective for interim and annual reporting periods beginning after December 15, 2017, and early adoption is permitted. We do not expect the adoption of ASU 2016-15 to have a material effect on our consolidated financial statements and disclosures.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18"). ASU 2016-16 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally

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described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted. The guidance is not expected to have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805), Clarifying the Definition of a Business ("ASU 2017-01"). ASU 2017-01 clarifies the definition of a business with the objective of addressing whether transactions involving in-substance nonfinancial assets, held directly or in a subsidiary, should be accounted for as acquisitions or disposals of nonfinancial assets or of businesses. ASU 2017-01 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted for transactions, including acquisitions or dispositions, which occurred before the issuance date or effective date of the standard if the transactions were not reported in financial statements that have been issued or made available for issuance. The adoption of ASU 2017-01 is not expected to have a material effect on the Company's consolidated financial statements.

In February 2017, the FASB issued ASU No. 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets ("ASU 2017-05"). ASU 2017-05 clarifies the guidance for derecognition of nonfinancial assets and in-substance nonfinancial assets when the asset does not meet the definition of a business and is not a not-for-profit activity. ASU 2017-05 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, but entities are required to adopt ASU 2017-05 at the same time they adopt ASU 2014-09. We expect to adopt the new standard under the modified retrospective approach. Under the modified retrospective approach, we will recognize the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings. We are still evaluating the effects ASU 2017-05 will have on our consolidated financial statements. We expect that adoption may decrease our accrued expenses and other liabilities due to certain non-financial assets that were previously exchanged for a noncontrolling interest in an unconsolidated joint venture.

In May 2017, the FASB issued ASU No. 2017-09, Compensation—Stock Compensation (Topic 718), Scope of Modification Accounting ("ASU 2017-09"). The guidance provides clarity and reduces diversity in practice and cost and complexity when accounting for a change to the terms or conditions of a share-based payment award. ASU 2017-09 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The adoption of ASU 2017-09 is not expected to have a material impact on our consolidated financial statements.

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2. Computation of Earnings Per Share

The following table sets forth the components used in the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
	(Dollars in thousands, except per share amounts)			
Numerator:				
Net income attributable to The New Home Company Inc.	\$4,318	\$ 5,547	\$6,681	\$ 7,242
Denominator:				
Basic weighted-average shares outstanding	20,876,305	20,711,952	20,839,500	20,675,233
Effect of dilutive shares:				
Stock options and unvested restricted stock units	123,358	85,779	109,992	89,247
Diluted weighted-average shares outstanding	20,999,663	20,797,731	20,949,492	20,764,480
Basic earnings per share attributable to The New Home Company Inc.	\$0.21	\$ 0.27	\$0.32	\$ 0.35
Diluted earnings per share attributable to The New Home Company Inc.	\$0.21	\$ 0.27	\$0.32	\$ 0.35
Antidilutive stock options and unvested restricted stock units not included in diluted earnings per share	831,270	845,331	838,572	866,139

3. Contracts and Accounts Receivable

Contracts and accounts receivable consist of the following:

	September 30, 2017	December 31, 2016
	(Dollars in thousands)	
Contracts receivable:		
Costs incurred on fee building projects	\$141,633	\$178,103
Estimated earnings	4,474	8,404
	146,107	186,507
Less: amounts collected during the period	(134,400)	(162,203)
Contracts receivable	\$11,707	\$24,304
Contracts receivable:		
Billed	\$—	\$—
Unbilled	11,707	24,304
	11,707	24,304
Accounts receivable:		
Escrow receivables	2,666	3,385
Other receivables	73	144
Contracts and accounts receivable	\$14,446	\$27,833

Billed contracts receivable represent amounts billed to customers that have yet to be collected. Unbilled contracts receivable represents the contract revenue recognized but not yet billable pursuant to contract terms or administratively not invoiced. All unbilled receivables as of September 30, 2017 and December 31, 2016 are expected to be billed and collected

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within 30 days. Accounts payable at September 30, 2017 and December 31, 2016 includes \$10.6 million and \$22.8 million, respectively, related to costs incurred under the Company's fee building contracts.

4. Real Estate Inventories and Capitalized Interest

Real estate inventories are summarized as follows:

	September 30, 2017	December 31, 2016
	(Dollars in thousands)	
Deposits and pre-acquisition costs	\$41,262	\$38,723
Land held and land under development	75,179	98,596
Homes completed or under construction	336,229	93,628
Model homes	25,871	55,981
	\$478,541	\$286,928

All of our deposits and pre-acquisition costs are non-refundable, except for refundable deposits of \$0.1 million and \$4.1 million as of September 30, 2017 and December 31, 2016, respectively.

Land held and land under development includes land costs and costs incurred during site development such as development, indirects, and permits. Homes completed or under construction and model homes (except for capitalized selling and marketing costs, which are classified in other assets) include all costs associated with home construction, including land, development, indirects, permits, materials and labor.

In accordance with ASC 360, Property, Plant and Equipment ("ASC 360"), inventory is stated at cost, unless the carrying amount is determined not to be recoverable, in which case inventory is written down to its fair value. We review each real estate asset at the community level, on a quarterly basis or whenever indicators of impairment exist. For the nine months ended September 30, 2017, the Company recognized real estate-related impairments of \$1.3 million in cost of sales resulting in a decrease of the same amount to income before income taxes for our homebuilding segment. Fair value for the homebuilding project impaired during the nine months ended September 30, 2017 was calculated under a discounted cash flow model. The following table summarizes inventory impairments recorded during the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2017	
	(Dollars in Thousands)			
Inventory impairments:				
Home sales	\$—	—\$1,300	\$—	—
Total inventory impairments	\$—	—\$1,300	\$—	—
Remaining carrying value of inventory impaired at period end	\$—	—\$11,310	\$—	—
Number of projects impaired during the period	—	1	—	—
Total number of projects subject to periodic impairment review during the year ⁽¹⁾	2624	26	24	

⁽¹⁾ Represents the peak number of real estate projects that we had during each respective period. The number of projects outstanding at the end of each period may be less than the number of projects listed herein.

The home sales impairments of \$1.3 million related to homes completed or under construction for one active homebuilding community located in Southern California. This community was experiencing a slow monthly sales absorption

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rate, and the Company determined that additional incentives were required to sell the remaining homes and lots at estimated aggregate sales prices that would be lower than its previous carrying value.

Interest is capitalized to inventory during development and other qualifying activities. Interest capitalized as a cost of inventory is included in cost of sales as related homes are closed. Interest capitalized to investment in unconsolidated joint ventures is amortized to equity in net income of unconsolidated joint ventures as related joint venture homes or lots close. For the three and nine months ended September 30, 2017 and 2016 interest incurred, capitalized and expensed was as follows:

	Three Months Ended		Nine Months Ended		
	September 30,	September 30,	September 30,	September 30,	
	2017	2016	2017	2016	
	(Dollars in thousands)				
Interest incurred	\$6,780	\$2,273	\$15,217	\$5,243	
Interest capitalized to inventory	(6,232)	(2,273)	(13,982)	(5,243)	
Interest capitalized to investments in unconsolidated joint ventures	(548)	—	(1,235)	—	
Interest expensed	\$—	\$—	\$—	\$—	
Capitalized interest in beginning inventory	\$10,821	\$5,449	\$6,342	\$4,190	
Interest capitalized as a cost of inventory	6,232	2,273	13,982	5,243	
Capitalized interest acquired from unconsolidated joint venture at consolidation	76	—	76	—	
Previously capitalized interest included in cost of sales	(2,448)	(1,306)	(5,719)	(3,017)	
Capitalized interest in ending inventory	\$14,681	\$6,416	\$14,681	\$6,416	
Capitalized interest in beginning investment in unconsolidated joint ventures	687	—	—	—	
Interest capitalized to investments in unconsolidated joint ventures	548	—	1,235	—	
Capitalized interest transferred from investment in unconsolidated joint venture to inventory upon consolidation	(76)	—	(76)	—	
Previously capitalized interest included in equity in net income of unconsolidated joint ventures	(5)	—	(5)	—	
Capitalized interest in ending investments in unconsolidated joint ventures	1,154	—	1,154	—	
Total capitalized interest in ending inventory and investments in unconsolidated joint ventures	\$15,835	\$6,416	\$15,835	\$6,416	
Capitalized interest as a percentage of inventory	3.1	% 1.7	% 3.1	% 1.7	%
Interest included in cost of sales as a percentage of home sales revenue	2.1	% 1.0	% 2.0	% 1.2	%
Capitalized interest as a percentage of investments in and advances to unconsolidated joint ventures	2.0	% —	% 2.0	% —	%

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5. Investments in and Advances to Unconsolidated Joint Ventures

As of September 30, 2017 and December 31, 2016, the Company had ownership interests in 11 and 13, respectively, unconsolidated joint ventures with ownership percentages that generally ranged from 5% to 35%. The condensed combined balance sheets for our unconsolidated joint ventures accounted for under the equity method are as follows:

	September 30, 2017	December 31, 2016		
			(Dollars in thousands)	
Cash and cash equivalents	\$27,380	\$33,683		
Restricted cash	15,003	8,374		
Real estate inventories	409,633	386,487		
Other assets	3,283	1,664		
Total assets	\$455,299	\$430,208		
Accounts payable and accrued liabilities	\$34,452	\$28,706		
Notes payable	89,664	97,664		
Total liabilities	124,116	126,370		
The New Home Company's equity	50,593	46,857		
Other partners' equity	280,590	256,981		
Total equity	331,183	303,838		
Total liabilities and equity	\$455,299	\$430,208		
Debt-to-capitalization ratio	21.3	%	24.3	%
Debt-to-equity ratio	27.1	%	32.1	%

As of September 30, 2017 and December 31, 2016, the Company had advances outstanding of approximately \$5.1 million and \$4.0 million, respectively, to these unconsolidated joint ventures, which were included in the notes payable balances of the unconsolidated joint ventures in the table above. The advances relate to an unsecured promissory note entered into on October 31, 2016 and amended on February 3, 2017 with Encore McKinley Village LLC ("Encore McKinley"), an unconsolidated joint venture of the Company. The note bears interest at 10% per annum and matures on October 31, 2017, with the right to extend to October 31, 2018 at the borrower's election.

The condensed combined statements of operations for our unconsolidated joint ventures accounted for under the equity method are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Revenues	\$45,889	\$34,464	\$107,680	\$146,525
Cost of sales and expenses	45,463	32,047	108,772	130,147
Net income (loss) of unconsolidated joint ventures	\$426	\$2,417	\$(1,092)	\$16,378
Equity in net income of unconsolidated joint ventures reflected in the accompanying consolidated statements of operations	\$99	\$488	\$606	\$4,428

For the three and nine months ended September 30, 2017 and 2016, the Company earned \$1.3 million, \$3.8 million, \$1.5 million, and \$6.3 million, respectively, in management fees from its unconsolidated joint ventures. For additional detail regarding management fees, please see Note 11 to the unaudited condensed consolidated financial statements. In August 2017, we acquired the remaining outside equity interest of our DMB/TNHC LLC (Sterling at Silverleaf) unconsolidated joint venture. The Company paid \$2.6 million to our joint venture partner and upon the change of control was required to consolidate this venture as it is now a wholly-owned subsidiary of the Company. The purchase consideration and

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the cost basis of our previous investment in unconsolidated joint ventures related to this joint venture, remeasured at fair value, are included in real estate inventories as of September 30, 2017.

During the 2017 second quarter, our Larkspur Land 8 Investors LLC unconsolidated joint venture (Larkspur) allocated \$0.1 million of income to the Company from a reduction in cost to complete reserves, which was included in equity in net income of unconsolidated joint ventures in the accompanying condensed consolidated statements of operations, and our outside equity partner exited the joint venture. Upon the change in control, we were required to consolidate this venture as a wholly owned subsidiary and the Company assumed the cash, other assets, and accrued liabilities, including warranty and the remaining costs to complete reserves, of the joint venture. As part of this transaction, and in accordance with ASC 805, Business Combinations, the Company also recognized a gain of \$0.3 million, which was included in equity in net income of unconsolidated joint ventures in the accompanying condensed consolidated statements of operations, due to the purchase of our JV partner's interest for less than its carrying value.

During June 2016, our LR8 Investors LLC unconsolidated joint venture (LR8) made its final distributions, allocated \$0.5 million of income to the Company from a reduction in warranty reserves, which was included in equity in net income of unconsolidated joint ventures in the accompanying condensed consolidated statements of operations, and our outside equity partner exited the joint venture. Upon the change in control, we were required to consolidate this venture as a wholly owned subsidiary and the Company assumed the cash, accounts receivable, accounts payable, and accrued liabilities, including the remaining warranty reserve, of the joint venture. As part of this transaction, and in accordance with ASC 805, Business Combinations, the Company also recognized a gain of \$1.1 million, which was included in equity in net income of unconsolidated joint ventures in the accompanying condensed consolidated statements of operations, due to the purchase of our JV partner's interest for less than its carrying value.

6. Other Assets

Other assets consist of the following:

	September 30, 2017	December 31, 2016
	(Dollars in thousands)	
Capitalized selling and marketing costs ⁽¹⁾	\$ 12,539	\$ 10,101
Deferred tax asset, net	8,488	8,434
Property and equipment, net of accumulated depreciation	658	857
Prepaid expenses	3,411	1,907
	\$ 25,096	\$ 21,299

The Company amortized \$1.8 million, \$5.1 million, \$1.6 million, and \$4.0 million of capitalized selling and marketing project costs to selling and marketing expenses during the three and nine months ended September 30, 2017 and 2016, respectively.

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7. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

	September 30, 2017	December 31, 2016
	(Dollars in thousands)	
Warranty accrual	\$5,531	\$ 4,931
Accrued compensation and benefits	5,284	6,786
Accrued interest	13,076	648
Completion reserve	2,258	1,355
Income taxes payable	1,669	7,147
Deferred profit from unconsolidated joint ventures	396	957
Other accrued expenses	2,470	1,594
	\$30,684	\$ 23,418

Changes in our warranty accrual are detailed in the table set forth below:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	(Dollars in thousands)			
Beginning warranty accrual for homebuilding projects	\$5,076	\$4,874	\$4,608	\$3,846
Warranty provision for homebuilding projects	411	369	1,013	1,174
Warranty assumed from joint venture at consolidation	—	—	358	469
Adjustment to warranty accrual	—	(1,065)	—	(1,065)
Warranty payments for homebuilding projects	(279)	(168)	(771)	(414)
Ending warranty accrual for homebuilding projects	5,208	4,010	5,208	4,010
Beginning warranty accrual for fee building projects	323	331	323	335
Warranty provision for fee building projects	—	—	—	—
Warranty efforts for fee building projects	—	(6)	—	(10)
Ending warranty accrual for fee building projects	323	325	323	325
Total ending warranty accrual	\$5,531	\$4,335	\$5,531	\$4,335

8. Senior Notes and Unsecured Revolving Credit Facility

Notes payable consisted of the following:

	September 30, 2017	December 31, 2016
	(Dollars in thousands)	
7.25% Senior Notes due 2022, net	\$318,452	\$—
Senior unsecured revolving credit facility	—	118,000
Total Notes Payable	\$318,452	\$118,000

The carrying amount of our senior notes listed above is net of the unamortized discount of \$2.3 million, unamortized premium of \$1.9 million, and \$6.1 million of debt issuance costs that are amortized to interest costs over the respective terms of the notes.

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On March 17, 2017, the Company completed the sale of \$250 million in aggregate principal amount of 7.25% Senior Notes due 2022 (the "Existing Notes"), in a private placement. The Existing Notes were issued at an offering price of 98.961% of their face amount, which represents a yield to maturity of 7.50%. On May 4, 2017, the Company completed a tack-on private placement offering through the sale of an additional \$75 million in aggregate principal amount of the 7.25% Senior Notes due 2022 ("Additional Notes"). The Additional Notes were issued at an offering price of 102.75% of their face amount plus accrued interest since March 17, 2017, which represented a yield to maturity of 6.438%. Net proceeds from the Existing Notes were used to repay all borrowings outstanding under the Company's senior unsecured revolving credit facility with the remainder to be used for general corporate purposes. Net proceeds from the Additional Notes are used for working capital, land acquisition and general corporate purposes. Interest on the Existing Notes and the Additional Notes (together the "Original Notes") will be paid semiannually in arrears on April 1 and October 1, which commenced October 1, 2017 and will mature on April 1, 2022. In accordance with its obligations under two registration rights agreements executed in connection with the private placements of the Original Notes, on September 8, 2017, the Company completed an exchange offer of the Original Notes for an equal principal amount of 7.25% Senior Notes due 2022 (the "Notes") which terms are identical in all material respects to the Original Notes except that the Notes are registered under the Securities Act of 1933, as amended (the "Securities Act") and are freely tradeable in accordance with applicable law.

The Notes are general senior unsecured obligations that rank equally in right of payment to all existing and future senior indebtedness, including borrowings under the Company's senior unsecured revolving credit facility. The Notes contain certain restrictive covenants, including a limitation on additional indebtedness and a limitation on restricted payments. Restricted payments include, among other things, dividends, investments in unconsolidated entities, and stock repurchases. Under the limitation on additional indebtedness, we are permitted to incur specified categories of indebtedness but are prohibited, aside from those exceptions, from incurring further indebtedness if we do not satisfy either a leverage condition or an interest coverage condition. Exceptions to the limitation include, among other things, borrowings of up to \$260 million under existing or future bank credit facilities, non-recourse indebtedness, and indebtedness incurred for the purpose of refinancing or repaying certain existing indebtedness. Under the limitation on restricted payments, we are also prohibited from making restricted payments, aside from certain exceptions, if we do not satisfy either condition. In addition, the amount of restricted payments that we can make is subject to an overall basket limitation, which builds based on, among other things, 50% of consolidated net income from January 1, 2017 and 100% of the net cash proceeds from qualified equity offerings. Exceptions to the foregoing limitations on our ability to make restricted payments include, among other things, investments in joint ventures and other investments up to 15% of our consolidated tangible net assets and a general basket of \$15 million. The Notes are guaranteed, on an unsecured basis, jointly and severally, by all of the Company's 100% owned subsidiaries. See Note 16 for information about the guarantees and supplemental financial statement information about our guarantor subsidiaries group and non-guarantor subsidiaries group.

The Company's unsecured revolving credit facility ("Credit Facility") is with a bank group. On September 27, 2017, the Company entered into a Modification Agreement (the "Modification") to its Credit Facility. The Modification, among other things, (i) extends the maturity date of the revolving credit facility to September 1, 2020, (ii) decreases (A) the total commitments under the facility to \$200 million from \$260 million and (B) the accordion feature to \$300 million from \$350 million, (iii) revises certain financial covenants, including the tangible net worth, minimum liquidity, and interest coverage tests, in addition to providing relief on compliance with the interest coverage test so long as the Company maintains cash equal to not less than the trailing twelve month consolidated interest incurred, and (iv) adds certain wholly owned subsidiaries as guarantors. As of September 30, 2017, we had no outstanding borrowings under the credit facility. Interest is payable monthly and is charged at a rate of 1-month LIBOR plus a margin ranging from 2.25% to 3.00% depending on the Company's leverage ratio as calculated at the end of each fiscal

quarter. As of September 30, 2017, the interest rate under the Credit Facility was 3.98%. Pursuant to the Credit Facility, the Company is required to maintain certain financial covenants as defined in the Credit Facility, including (i) a minimum tangible net worth; (ii) maximum leverage ratios; (iii) a minimum liquidity covenant; and (iv) a minimum fixed charge coverage ratio based on EBITDA (as detailed in the Credit Facility) to interest incurred. As of September 30, 2017, the Company was in compliance with all financial covenants. For more information regarding the financial covenants, please see Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Senior Unsecured Revolving Credit Facility."

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9. Fair Value Disclosures

ASC 820, Fair Value Measurements and Disclosures, defines fair value as the price that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date and requires assets and liabilities carried at fair value to be classified and disclosed in the following three categories:

Level 1 – Quoted prices for identical instruments in active markets

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are inactive; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets at measurement date

Level 3 – Valuations derived from techniques where one or more significant inputs or significant value drivers are unobservable in active markets at measurement date

Fair Value of Financial Instruments

The following table presents an estimated fair value of the Company's senior notes. The estimated value is based on Level 2 inputs, which primarily reflect estimated prices for our Notes obtained from outside pricing sources.

	September 30, 2017	December 31, 2016
	Carrying Amount	Fair Value
	Amount	Value
	(dollars in thousands)	
7.25% Senior Notes due 2022, net ⁽¹⁾	\$318,452	\$335,563
	\$ —	\$ —

(1) The carrying value for the Senior Notes, as presented, is net of the unamortized discount of \$2.3 million, unamortized premium of \$1.9 million, and \$6.1 million of debt issuance costs. The unamortized discount, unamortized premium and debt issuance costs are not factored into the estimated fair value.

The Company determined that the fair value estimate of its unsecured revolving credit facility is classified as Level 3 within the fair value hierarchy. The Company had no outstanding balance on the revolving credit facility at September 30, 2017, and the estimated fair value of the outstanding revolving credit facility balance at December 31, 2016 approximated the carrying value due to the short-term nature of LIBOR contracts.

The Company considers the carrying value of cash and cash equivalents, restricted cash, contracts and accounts receivable, accounts payable, and accrued expenses and other liabilities to approximate the fair value of these financial instruments based on the short duration between origination of the instruments and their expected realization. The fair value of amounts due from affiliates is not determinable due to the related party nature of such amounts.

Non-Recurring Fair Value Adjustments

Nonfinancial assets and liabilities include items such as inventory and long-lived assets that are measured at cost when acquired and adjusted for impairment to fair value, if deemed necessary. For the nine months ended September 30, 2017, the Company recognized a real estate-related impairment adjustment of \$1.3 million related to one homebuilding community. The impairment adjustment was made using Level 3 inputs and assumptions. The carrying value of the real estate inventories subject to the impairment adjustments was \$11.3 million at September 30, 2017.

10. Commitments and Contingencies

From time-to-time, the Company is involved in various legal matters arising in the ordinary course of business. These claims and legal proceedings are of a nature that we believe are normal and incidental to a homebuilder. We make provisions for loss contingencies when they are probable and the amount of the loss can be reasonably estimated. Such

provisions are assessed at least quarterly and adjusted to reflect the impact of any settlement negotiations, judicial and administrative rulings, advice of legal counsel, and other information and events pertaining to a particular case. In view of the inherent unpredictability of litigation, we generally cannot predict their ultimate resolution, related timing or eventual loss. At this time, we do not believe that our loss contingencies, individually or in the aggregate, are material to our consolidated financial statements.

As an owner and developer of real estate, the Company is subject to various environmental laws of federal, state and local governments. The Company is not aware of any environmental liability that could have a material adverse effect on its financial condition or results of operations. However, changes in applicable environmental laws and regulations, the uses and

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conditions of real estate in the vicinity of the Company's real estate and other environmental conditions of which the Company is unaware with respect to the real estate could result in future environmental liabilities.

The Company has provided credit enhancements in connection with joint venture borrowings in the form of LTV maintenance agreements in order to secure the joint venture's performance under the loans and maintenance of certain LTV ratios. The Company has also entered into agreements with its partners in each of the unconsolidated joint ventures whereby the Company and its partners are apportioned liability under the LTV maintenance agreements according to their respective capital interest. In addition, the agreements provide the Company, to the extent its partner has an unpaid liability under such credit enhancements, the right to receive distributions from the unconsolidated joint venture that would otherwise be made to the partner. However, there is no guarantee that such distributions will be made or will be sufficient to cover the share of the liability apportioned to us. The loans underlying the LTV maintenance agreements comprise acquisition and development loans, construction revolvers and model home loans, and the agreements remain in force until the loans are satisfied. Due to the nature of the loans, the outstanding balance at any given time is subject to a number of factors including the status of site improvements, the mix of horizontal and vertical development underway, the timing of phase build outs, and the period necessary to complete the escrow process for homebuyers. As of September 30, 2017 and December 31, 2016, \$46.4 million and \$56.0 million, respectively, was outstanding under loans that are credit enhanced by the Company through LTV maintenance agreements. Under the terms of the joint venture agreements, the Company's proportionate share of LTV maintenance agreement liabilities was \$8.0 million and \$8.6 million, respectively, as of September 30, 2017 and December 31, 2016. In addition, the Company has provided completion agreements regarding specific performance for certain projects whereby the Company is required to complete the given project with funds provided by the beneficiary of the agreement. If there are not adequate funds available under the specific project loans, the Company would then be subject to financial liability under such completion agreements. Typically, under such terms of the joint venture agreements, the Company has the right to apportion the respective share of any costs funded under such completion agreements to its partners. However, there is no guarantee that we will be able to recover against our partners for such amounts owed to us under the terms of such joint venture agreements. In connection with joint venture borrowings, the Company also selectively provides (a) an environmental indemnity provided to the lender that holds the lender harmless from and against losses arising from the discharge of hazardous materials from the property and non-compliance with applicable environmental laws; and (b) indemnification of the lender from "bad boy acts" of the unconsolidated entity such as fraud, misrepresentation, misapplication or non-payment of rents, profits, insurance, and condemnation proceeds, waste and mechanic liens, and bankruptcy.

We obtain surety bonds in the normal course of business to ensure completion of certain infrastructure improvements of our projects. As of September 30, 2017 and December 31, 2016, the Company had outstanding surety bonds totaling \$48.8 million and \$44.0 million, respectively. The estimated remaining costs to complete of such improvements as of September 30, 2017 and December 31, 2016 were \$17.2 million and \$15.7 million, respectively. The beneficiaries of the bonds are various municipalities and other organizations. In the event that any such surety bond issued by a third party is called because the required improvements are not completed, the Company could be obligated to reimburse the issuer of the bond.

On May 6, 2015, the Company entered into a letter of credit facility agreement that allows the Company and certain affiliated unconsolidated joint ventures to issue up to \$5.0 million in letters of credit. The agreement includes an option to increase this amount to \$7.5 million, subject to certain conditions. As of September 30, 2017, our affiliated unconsolidated joint ventures had \$1.8 million in outstanding letters of credit issued under this facility and the Company had no obligations associated with such outstanding JV letters of credit.

During the 2017 third quarter, the Company amended a joint venture agreement pursuant to which it, among other things, agreed to acquire approximately 400 lots in Phase 1 of the joint venture project and posted a \$5.1 million non-refundable deposit for the acquisition of such lots. The agreement allows for the Company to enter the property in advance of the closing date to perform certain improvements, which it expects to begin in the 2018 second quarter. If

the Company does not acquire the lots, it is obligated to reimburse the joint venture for these improvement costs. At this time, the Company estimates that the total cost for these improvements will be \$17.0 million.

11. Related Party Transactions

During the three and nine months ended September 30, 2017 and 2016, the Company incurred construction-related costs on behalf of its unconsolidated joint ventures totaling \$1.8 million, \$5.8 million, \$2.6 million and \$7.0 million, respectively. As of September 30, 2017 and December 31, 2016, \$0.3 million and \$0.2 million, respectively, are included in due from affiliates in the accompanying condensed consolidated balance sheets related to such costs. The Company has entered into agreements with its unconsolidated joint ventures to provide management services related to the underlying projects (collectively referred to as the "Management Agreements"). Pursuant to the Management Agreements, the Company receives a management fee based on each project's revenues. During the three and nine months ended September 30, 2017 and 2016, the Company earned \$1.3 million, \$3.8 million, \$1.5 million and \$6.3 million,

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respectively, in management fees, which have been recorded as fee building revenues in the accompanying condensed consolidated statements of operations. As of September 30, 2017 and December 31, 2016, \$0.1 million and \$0.6 million, respectively, of management fees are included in due from affiliates in the accompanying condensed consolidated balance sheets.

One member of the Company's board of directors beneficially owns more than 10% of the Company's outstanding common stock through an affiliated entity and is also affiliated with an entity that has investments in two of the Company's unconsolidated joint ventures. A separate member of the Company's board of directors is also affiliated with an entity that has investments in three of the Company's unconsolidated joint ventures. As of September 30, 2017, the Company's investment in these five unconsolidated joint ventures totaled \$28.1 million. During the 2017 second quarter, one of these joint venture agreements was amended to increase the Company's funding obligation by \$4.0 million over the existing contribution cap. During the 2017 third quarter, the Company amended another one of these joint venture agreements pursuant to which it, among other things, agreed to acquire approximately 400 lots in Phase 1 of the project. At September 30, 2017, the Company had a \$5.1 million non-refundable deposit outstanding related to this purchase.

TL Fab LP, an affiliate of one of the Company's non-employee directors, was engaged by the Company and some of its unconsolidated joint ventures as a trade contractor to provide metal fabrication services. For the three and nine months ended September 30, 2017 and 2016, the Company incurred \$0.1 million, \$0.4 million, \$32,000 and \$0.2 million, respectively, for these services. The Company's unconsolidated joint ventures incurred \$0.1 million, \$0.7 million, \$0.1 million and \$0.5 million, respectively, for these services. Of these costs, \$4,000 and \$33,000 was due to TL Fab LP from the Company at September 30, 2017 and December 31, 2016, respectively, and \$134,000 and \$14,000 was due to TL Fab LP from the Company's unconsolidated joint ventures at September 30, 2017 and December 31, 2016, respectively.

In its ordinary course of business, the Company enters into agreements to purchase lots from unconsolidated land development joint ventures of which it is a member. In accordance with ASC 360-20, Property, Plant and Equipment - Real Estate Sales ("ASC 360-20"), the Company defers its portion of the underlying gain from the joint venture's sale of these lots. When the Company purchases lots directly from the joint venture, the deferred gain is recorded as a reduction to the Company's land basis on the purchased lots. In certain instances, a third party may purchase lots from our unconsolidated joint ventures with the intent to finish the lots. Then, the Company has an option to acquire these finished lots from the third party. In these instances, the Company defers its portion of the underlying gain and records the deferred gain as deferred profit from unconsolidated joint ventures included in accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets. Once the lot is purchased by the Company, the pro-rata share of the previously deferred profit is recorded as a reduction to the Company's land basis in the purchased lots. In both instances, the gain is ultimately recognized when the Company delivers lots to third-party home buyers at the time of the home closing. At September 30, 2017 and December 31, 2016, \$0.3 million and \$0.6 million, respectively, of deferred gain from lot sale transactions is included in accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets as deferred profit from unconsolidated joint ventures. In addition, at September 30, 2017 and December 31, 2016, \$0.7 million and \$0.7 million, respectively, of deferred gain from lot sale transactions remained unrecognized and included as a reduction to land basis in the accompanying condensed consolidated balance sheets.

The Company's land purchase agreement with one of its unconsolidated joint ventures, TNHC-HW Cannery LLC ("TNHC-HW Cannery"), requires profit participation payments due upon the closing of each home. Payment amounts are calculated based upon a percentage of estimated net profits and are due every 90 days after the first home closing. During the nine months ended September 30, 2017, the Company was refunded \$0.2 million from TNHC-HW Cannery for profit participation overpayments from prior periods due to a modification of the underlying calculation related to profit participation, and as of September 30, 2017, no profit participation was due to TNHC-HW Cannery. Also per the purchase agreement, the Company is due \$0.1 million in fee credits from TNHC-HW Cannery LLC at

September 30, 2017 which is included in due from affiliates in the accompanying condensed consolidated balance sheets. As of December 31, 2016, \$0.2 million of profit participation overpayments and \$0.1 million in fee credits was due to the Company from TNHC-HW Cannery and included in due from affiliates in the accompanying consolidated balance sheets.

On June 18, 2015, the Company entered into an agreement that effectively transitioned Joseph Davis' role within the Company from that of Chief Investment Officer to that of a non-employee consultant to the Company effective June 26, 2015 ("Transition Date"). As of the Transition Date, Mr. Davis ceased being an employee of the Company and became an independent contractor performing consulting services. Mr. Davis is expected to work approximately, but not more than, 20 consulting hours per month. For his services, he is compensated \$5,000 per month. His current agreement terminates on July 26, 2018 with the option to extend the agreement one year, if mutually consented to by the parties. Either party may terminate the agreement at any time for any or no reason. At September 30, 2017, no fees were due to Mr. Davis for his consulting services. Additionally, the Company entered into a construction agreement effective September 7, 2017, with The Joseph and Terri Davis Family Trust Dated August 25, 1999 ("Davis Family Trust") of which Joseph Davis is a trustee. The agreement is a

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fee building contract pursuant to which the Company will act in the capacity of a general contractor to build a single family detached home on land owned by the Davis Family Trust. For its services, the Company will receive a contractor's fee and the Davis Family Trust will reimburse the Company's field overhead costs.

On June 29, 2015, the Company formed a new unconsolidated joint venture and received capital credit in excess of our contributed land basis. As a result, the Company recognized \$1.6 million in equity in net income of unconsolidated joint ventures and deferred \$0.4 million in profit from unconsolidated joint ventures related to this transaction for the year ended December 31, 2015. During the three and nine months ended September 30, 2017, \$0.1 million and \$0.2 million, respectively, of the previously deferred revenue was recognized as equity in net income of unconsolidated joint ventures, and at September 30, 2017, \$0.1 million remained unrecognized and included in accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets.

On January 15, 2016, the Company entered into an assignment and assumption of membership interest agreement (the "Buyout Agreement") for its partner's interest in the TNHC San Juan LLC unconsolidated joint venture. Per the terms of the Buyout Agreement, the Company contributed \$20.6 million to the joint venture, and the joint venture made a liquidating cash distribution to our partner for the same amount in exchange for its membership interest. Prior to the buyout, the Company accounted for its investment in TNHC San Juan LLC as an equity method investment. After the buyout, TNHC San Juan LLC is now a wholly owned subsidiary of the Company.

During June 2016, our LR8 Investors LLC unconsolidated joint venture (LR8) made its final distributions, allocated \$0.5 million of income to the Company from a reduction in warranty reserves, which was included in equity in net income of unconsolidated joint ventures in the accompanying condensed consolidated statements of operations, and our outside equity partner exited the joint venture. Upon the change in control, we were required to consolidate this venture as a wholly owned subsidiary and the Company assumed the cash, accounts receivable, accounts payable, and accrued liabilities, including the remaining warranty reserve, of the joint venture. As part of this transaction, and in accordance with ASC 805, Business Combinations, the Company also recognized a gain of \$1.1 million, which was included in equity in net income of unconsolidated joint ventures in the accompanying condensed consolidated statements of operations, due to the purchase of our JV partner's interest for less than its carrying value.

As of September 30, 2017 and December 31, 2016, the Company had advances outstanding of approximately \$5.1 million and \$4.0 million, respectively, to an unconsolidated joint venture, Encore McKinley Village. The note bears interest at 10% per annum and matures on October 31, 2017, with the right to extend to October 31, 2018. For the three and nine months ended September 30, 2017, the Company earned \$0.1 million and \$0.4 million in interest income on the unsecured promissory note which is included in equity in net income of unconsolidated joint ventures in the accompanying condensed consolidated statements of operations. As of September 30, 2017 and December 31, 2016, \$3,000 and \$44,000 of interest income was due to the Company and included in due from affiliates in the accompanying condensed consolidated balance sheets.

On February 17, 2017 (the "Transition Date"), the Company entered into a consulting agreement that transitioned Mr. Stelmar's role from that of Chief Investment Officer to a non-employee consultant to the Company. While an employee of the Company, Mr. Stelmar served as an employee director of the Company's Board of Directors. The agreement also provides that effective upon Mr. Stelmar's termination of employment, he shall become a non-employee director and shall receive the compensation and be subject to the requirements of a non-employee director pursuant to the Company's policies. For his consulting services, Mr. Stelmar will be compensated \$16,800 per month for a term of one year from the Transition Date with the option to extend the agreement one year on each anniversary of the Transition Date if mutually consented to by the parties. Either party may terminate the agreement at any time for any or no reason. Additionally, Mr. Stelmar's outstanding restricted stock unit equity award will continue to vest in accordance with its original terms based on his continued provision of consulting services rather than continued employment. At September 30, 2017, no fees were due to Mr. Stelmar for his consulting services.

During the 2017 second quarter, our Larkspur Land 8 Investors LLC unconsolidated joint venture (Larkspur) allocated \$0.1 million of income to the Company from a reduction in cost to complete reserves, which was included in equity in

net income of unconsolidated joint ventures in the accompanying condensed consolidated statements of operations, and our outside equity partner exited the joint venture. Upon the change in control, we were required to consolidate this venture as a wholly owned subsidiary and the Company assumed the cash, other assets, and accrued liabilities, including warranty and the remaining costs to complete reserves, of the joint venture. As part of this transaction, and in accordance with ASC 805, Business Combinations, the Company also recognized a gain of \$0.3 million, which was included in equity in net income of unconsolidated joint ventures in the accompanying condensed consolidated statements of operations, due to the purchase of our JV partner's interest for less than its carrying value.

In April 2017, the Company entered into an agreement to purchase land from an affiliate of an entity that owns more than 10% of the Company's outstanding common stock and is affiliated with one member of the Company's board of directors. The agreement allows the Company the option to purchase approximately 92 lots in Northern California in a phased takedown

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for a total purchase price of \$16.1 million. As of September 30, 2017, the Company has taken down four lots and has a \$0.5 million non-refundable deposit outstanding on the remaining lots.

In August 2017, we acquired the remaining outside equity interest of our DMB/TNHC LLC (Sterling at Silverleaf) unconsolidated joint venture. The Company paid \$2.6 million to our joint venture partner and upon the change of control was required to consolidate this venture as it is now a wholly-owned subsidiary of the Company. There was no remeasurement gain or loss on our unconsolidated interest prior to the change in control. The purchase consideration and the cost basis of our previous investment in unconsolidated joint ventures related to this joint venture are included in real estate inventories as of September 30, 2017.

12. Stock-Based Compensation

The Company's 2014 Long-Term Incentive Plan (the "2014 Incentive Plan"), was adopted by our board of directors in January 2014. The 2014 Incentive Plan provides for the grant of equity-based awards, including options to purchase shares of common stock, stock appreciation rights, restricted and unrestricted stock awards, restricted stock units and performance awards. The 2014 Incentive Plan will automatically expire on the tenth anniversary of its effective date.

The number of shares of our common stock that are authorized to be issued under the 2014 Incentive Plan is 1,644,875 shares. To the extent that shares of the Company's common stock subject to an outstanding option, stock appreciation right, stock award or performance award granted under the 2014 Incentive Plan or any predecessor plan are not issued or delivered by reason of the expiration, termination, cancellation or forfeiture of such award or the settlement of such award in cash, then such shares of common stock generally shall again be available under the 2014 Incentive Plan.

At our 2016 Annual Meeting of Shareholders on May 24, 2016, our shareholders approved the Company's 2016 Incentive Award Plan (the "2016 Incentive Plan"). The 2016 Incentive Plan provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units and other stock- or cash-based awards. Non-employee directors of the Company and employees and consultants of the Company or any of its subsidiaries are eligible to receive awards under the 2016 Incentive Plan. The 2016 Incentive Plan authorizes the issuance of 800,000 shares of common stock, subject to certain limitations. The 2016 Incentive Plan will expire on February 23, 2026.

The Company has issued stock option and restricted stock unit awards under the 2014 Incentive Plan and restricted stock unit awards under the 2016 Incentive Plan. As of September 30, 2017, 32,830 shares remain available for grant under the 2014 Incentive Plan and 464,928 shares remain available for grant under the 2016 Incentive Plan. The exercise price of stock-based awards may not be less than the market value of the Company's common stock on the date of grant. The fair value for stock options is established at the date of grant using the Black-Scholes model for time-based vesting awards. The Company's stock option and restricted stock unit awards typically vest over a one to three year period and the stock options expire ten years from the date of grant.

A summary of the Company's common stock option activity as of and for the nine months ended September 30, 2017 and 2016 is presented below:

	Nine Months Ended September 30, 2017		2016	
	Number of Shares	Weighted-Average Exercise Price per Share	Number of Shares	Weighted-Average Exercise Price per Share
Stock Option Activity				
Outstanding, beginning of period	835,786	\$ 11.00	840,298	\$ 11.00
Granted	—	\$ —	—	\$ —
Exercised	(9,288)	\$ 11.00	—	\$ —
Forfeited	—	\$ —	(4,512)	\$ 11.00
Outstanding, end of period	826,498	\$ 11.00	835,786	\$ 11.00

Exercisable, end of period	826,498	\$	11.00	44,442	\$	11.00
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A summary of the Company's restricted stock unit activity as of and for the nine months ended September 30, 2017 and 2016 is presented below:

	Nine Months Ended September 30, 2017		2016	
	Number of Shares	Weighted-Average Grant-Date Fair Value per Share	Number of Shares	Weighted-Average Grant-Date Fair Value per Share
Restricted Stock Unit Activity				
Outstanding, beginning of period	474,989	\$ 10.66	308,386	\$ 14.20
Granted	343,933	\$ 10.84	414,045	\$ 10.05
Vested	(211,131)	\$ 10.75	(231,289)	\$ 14.22
Forfeited	(26,194)	\$ 10.82	(11,796)	\$ 12.10
Outstanding, end of period	581,597	\$ 10.72	479,346	\$ 10.66

The expense related to the Company's stock-based compensation programs, included in general and administrative expense in the accompanying condensed consolidated statements of operations, was as follows:

Three Months Ended September 30, 2017	Nine Months Ended September 30, 2016
2016	2017
2017	2016

(Dollars in thousands)

Expense related to:

Stock options	\$—	\$300	\$11	\$747
Restricted stock units	780	560	2,075	1,855
	\$780	\$860	\$2,086	\$2,602

We used the "simplified method" to establish the expected term of the common stock options granted by the Company. Our restricted stock unit awards are valued based on the closing price of our common stock on the date of grant. At September 30, 2017, the amount of unearned stock-based compensation currently estimated to be expensed through 2020 is \$4.6 million. The weighted-average period over which the unearned stock-based compensation is expected to be recognized is 1.8 years. If there are any modifications or cancellations of the underlying unvested awards, the Company may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense.

13. Income Taxes

For the three months ended September 30, 2017 and 2016, the Company recorded a provision for income taxes of \$2.7 million and \$3.5 million, respectively. For the nine months ended September 30, 2017 and 2016, the Company recorded a provision for income taxes of \$4.2 million and \$4.7 million, respectively. Included in the nine month period for 2016 is an allocation of income from LR8 of \$0.5 million due to a reduction in the warranty reserve and a \$1.1 million gain from the closeout of LR8 due to the purchase of our JV partner's interest for less than its carrying value, which resulted in a provision for income taxes of \$0.6 million for the nine month period ended September 30, 2016 and did not impact our effective tax rate. The effective tax rate for the three and nine months ended September 30, 2017 and 2016 differs from the 35% federal statutory tax rate due to state income taxes partially offset by the tax benefit of production activities.

Each quarter we assess our deferred tax asset to determine whether all or any portion of the asset is more likely than not unrealizable under ASC 740. We are required to establish a valuation allowance for any portion of the asset we

conclude is more likely than not unrealizable. Our assessment considers, among other things, the nature, frequency and severity of prior cumulative losses, forecasts of future taxable income, the duration of statutory carryforward periods, our utilization experience with operating loss and tax credit carryforwards and the planning alternatives, to the extent these items are applicable.

The Company classifies any interest and penalties related to income taxes assessed as part of income tax expense. The Company has concluded that there were no significant uncertain tax positions requiring recognition in its financial statements, nor has the Company been assessed interest or penalties by any major tax jurisdictions related to any open tax periods.

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14. Segment Information

The Company's operations are organized into two reportable segments: homebuilding and fee building. In determining the most appropriate reportable segments, we considered similar economic and other characteristics, including product types, average selling prices, gross margins, production processes, suppliers, subcontractors, regulatory environments, land acquisition results, and underlying demand and supply in accordance with ASC Topic 280, Segment Reporting. Our homebuilding operations acquire and develop land and construct and sell single-family attached and detached homes. Our fee building operations build homes and manage construction related activities on behalf of third-party property

owners and our joint ventures. In addition, our Corporate operations develop and implement strategic initiatives and support our operating segments by centralizing key administrative functions such as accounting, finance and treasury, information technology, insurance and risk management, litigation, marketing and human resources. A portion of the expenses incurred by Corporate are allocated to the fee building segment primarily based on its respective percentage of revenues. The assets of our fee building segment primarily consist of cash, restricted cash and accounts receivable. The majority of our Corporate personnel and resources are primarily dedicated to activities relating to our homebuilding segment, and, therefore, the balance of any unallocated Corporate expenses and assets are included in our homebuilding segment.

The reportable segments follow the same accounting policies as our consolidated financial statements described in Note 1. Operational results of each reportable segment are not necessarily indicative of the results that would have been achieved had the reportable segment been an independent, stand-alone entity during the periods presented.

Financial information relating to reportable segments was as follows:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
	(Dollars in thousands)			
Revenues:				
Homebuilding	\$114,622	\$125,142	\$280,957	\$246,281
Fee building, including management fees	43,309	52,761	146,107	125,726
Total	\$157,931	\$177,903	\$427,064	\$372,007

Income before income taxes:

Homebuilding	\$5,473	\$7,113	\$6,365	\$6,207
Fee building, including management fees	1,501	1,929	4,474	5,663
Total	\$6,974	\$9,042	\$10,839	\$11,870

SeptemberDecember
30, 31,
2017 2016
(Dollars in
thousands)

Assets:

Homebuilding	\$625,300	\$393,095
Fee building	12,807	26,041
Total	\$638,107	\$419,136

THE NEW HOME COMPANY INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. Supplemental Disclosure of Cash Flow Information

The following table presents certain supplemental cash flow information:

	Nine Months Ended September 30, 2017 2016 (Dollars in thousands)	
Supplemental disclosures of cash flow information		
Interest paid, net of amounts capitalized	\$—	\$—
Income taxes paid	\$9,700	\$8,270
Supplemental disclosures of non-cash transactions		
Assets assumed from unconsolidated joint ventures	\$3,877	\$46,811
Liabilities and equity assumed from unconsolidated joint ventures	\$4,872	\$47,197

16. Supplemental Guarantor Information

The Company's 7.25% Senior Notes due 2022 (the "Notes") are guaranteed, on an unsecured basis, jointly and severally, by all of the Company's 100% owned subsidiaries (collectively, the "Guarantors"). The guarantees are full and unconditional. The Indenture governing the Notes provides that the guarantees of a Guarantor will be automatically and unconditionally released and discharged: (1) upon any sale, transfer, exchange or other disposition (by merger, consolidation or otherwise) of all of the equity interests of such Guarantor after which the applicable Guarantor is no longer a "Restricted Subsidiary" (as defined in the Indenture), which sale, transfer, exchange or other disposition is made in compliance with applicable provisions of the Indenture; (2) upon the proper designation of such Guarantor as an "Unrestricted Subsidiary" (as defined in the Indenture), in accordance with the Indenture; (3) upon request of the Company and certification in an officers' certificate provided to the trustee that the applicable Guarantor has become an "Immaterial Subsidiary" (as defined in the indenture), so long as such Guarantor would not otherwise be required to provide a guarantee pursuant to the Indenture; provided that, if immediately after giving effect to such release the consolidated tangible assets of all Immaterial Subsidiaries that are not Guarantors would exceed 5.0% of consolidated tangible assets, no such release shall occur, (4) if the Company exercises its legal defeasance option or covenant defeasance option under the Indenture or if the obligations of the Company and the Guarantors are discharged in compliance with applicable provisions of the Indenture, upon such exercise or discharge; (5) unless a default has occurred and is continuing, upon the release or discharge of such Guarantor from its guarantee of any indebtedness for borrowed money of the Company and the Guarantors so long as such Guarantor would not then otherwise be required to provide a guarantee pursuant to the Indenture; or (6) upon the full satisfaction of the Company's obligations under the Indenture; provided that in each case if such Guarantor has incurred any indebtedness in reliance on its status as a Guarantor in compliance with applicable provisions of the Indenture, such Guarantor's obligations under such indebtedness, as the case may be, so incurred are satisfied in full and discharged or are otherwise permitted to be incurred by a Restricted Subsidiary (other than a Guarantor) in compliance with applicable provisions of the Indenture. The Company has determined that separate, full financial statements of the Guarantors would not be material to investors and, accordingly, supplemental financial information for the guarantors is presented.

As the guarantees were made in connection with the first and second quarter 2017 offering of notes, the Guarantors' condensed financial information is presented as if the guarantees existed during the period presented. If any subsidiaries are released from the guarantees in future periods, the changes are reflected prospectively.

THE NEW HOME COMPANY INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS

	September 30, 2017				
	NWHM Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated NWHM
	(Dollars in thousands)				
Assets					
Cash and cash equivalents	\$37,378	\$ 24,861	\$ 204	\$ —	\$ 62,443
Restricted cash	—	213	—	—	213
Contracts and accounts receivable	20	15,609	6	(1,189)	14,446
Intercompany receivables	108,012	—	—	(108,012)	—
Due from affiliates	—	554	—	—	554
Real estate inventories	—	478,541	—	—	478,541
Investment in and advances to unconsolidated joint ventures	—	56,814	—	—	56,814
Investment in subsidiaries	429,469	—	—	(429,469)	—
Other assets	10,222	14,874	—	—	25,096
Total assets	\$585,101	\$ 591,466	\$ 210	\$ (538,670)	\$ 638,107
Liabilities and equity					
Accounts payable	\$270	\$ 35,808	\$ —	\$ —	\$ 36,078
Accrued expenses and other liabilities	13,577	18,189	107	(1,189)	30,684
Intercompany payables	—	108,012	—	(108,012)	—
Senior notes, net	318,452	—	—	—	318,452
Total liabilities	332,299	162,009	107	(109,201)	385,214
Stockholders' equity	252,802	429,457	12	(429,469)	252,802
Noncontrolling interest in subsidiary	—	—	91	—	91
Total equity	252,802	429,457	103	(429,469)	252,893
Total liabilities and equity	\$585,101	\$ 591,466	\$ 210	\$ (538,670)	\$ 638,107
	December 31, 2016				
	NWHM Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated NWHM
	(Dollars in thousands)				
Assets					
Cash and cash equivalents	\$16,385	\$ 13,842	\$ 269	\$ —	\$ 30,496
Restricted cash	—	585	—	—	585
Contracts and accounts receivable	30	29,774	—	(1,971)	27,833
Intercompany receivables	73,972	—	—	(73,972)	—
Due from affiliates	—	1,138	—	—	1,138
Real estate inventories	—	286,928	—	—	286,928
Investment in and advances to unconsolidated joint ventures	—	50,857	—	—	50,857
Investment in subsidiaries	268,411	—	—	(268,411)	—
Other assets	9,381	11,918	—	—	21,299
Total assets	\$368,179	\$ 395,042	\$ 269	\$ (344,354)	\$ 419,136

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Liabilities and equity					
Accounts payable	\$ 167	\$ 32,900	\$ 27	\$ —	\$ 33,094
Accrued expenses and other liabilities	5,489	19,763	108	(1,942)) 23,418
Intercompany payables	—	73,972	—	(73,972)) —
Due to affiliates	—	29	—	(29)) —
Unsecured revolving credit facility	118,000	—	—	—	118,000
Total liabilities	123,656	126,664	135	(75,943)	) 174,512
Stockholders' equity	244,523	268,378	33	(268,411)	) 244,523
Noncontrolling interest in subsidiary	—	—	101	—	101
Total equity	244,523	268,378	\$ 134	(268,411)	) 244,624
Total liabilities and equity	\$368,179	\$ 395,042	\$ 269	\$ (344,354)	) \$ 419,136

THE NEW HOME COMPANY INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

Three Months Ended September 30, 2017

	NWHM Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated NWHM
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(Dollars in thousands)

Revenues:					
Home sales	\$—	\$ 114,622	\$ —	\$ —	\$ 114,622
Fee building	—	43,309	—	—	43,309
	—	157,931	—	—	157,931
Cost of Sales:					
Home sales	—	95,992	—	—	95,992
Fee building	364	41,444	—	—	41,808
	364	137,436	—	—	137,800
Gross Margin:					
Home sales	—	18,630	—	—	18,630
Fee building	(364)	1,865	—	—	1,501
	(364)	20,495	—	—	20,131
Selling and marketing expenses	—	(6,860)	—	—	(6,860)
General and administrative expenses	(350)	(6,115)	—	—	(6,465)
Equity in net income of unconsolidated joint ventures	—	99	—	—	99
Equity in net income of subsidiaries	4,695	—	—	(4,695)	—
Other income (expense), net	127	(58)	—	—	69
Income before income taxes	4,108	7,561	—	(4,695)	6,974
Benefit (provision) for income taxes	210	(2,866)	—	—	(2,656)
Net income	4,318	4,695	—	(4,695)	4,318
Net (income) loss attributable to noncontrolling interest in subsidiary	—	—	—	—	—
Net income attributable to The New Home Company Inc.	\$4,318	\$4,695	\$ —	—\$ (4,695)	\$4,318

Three Months Ended September 30, 2016

	NWHM Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated NWHM
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(Dollars in thousands)

Revenues:					
Home sales	\$—	\$ 125,142	\$ —	\$ —	\$ 125,142
Fee building	—	52,761	—	—	52,761
	—	177,903	—	—	177,903
Cost of Sales:					
Home sales	—	105,791	8	—	105,799
Fee building	540	50,292	—	—	50,832
	540	156,083	8	—	156,631
Gross Margin:					
Home sales	—	19,351	(8)	—	19,343
Fee building	(540)	2,469	—	—	1,929

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	(540)	21,820	(8)	—	21,272
Selling and marketing expenses	—	(6,053)	(2)	—	(6,055)
General and administrative expenses	(3,566)	(2,902)	—	—	(6,468)
Equity in net income of unconsolidated joint ventures	—	488	—	—	488
Equity in net income of subsidiaries	8,230	—	—	(8,230)	—
Other income (expense), net	(22)	(173)	—	—	(195)
Income (loss) before income taxes	4,102	13,180	(10)	(8,230)	9,042
Benefit (provision) for income taxes	1,445	(4,910)	—	—	(3,465)
Net income (loss)	5,547	8,270	(10)	(8,230)	5,577
Net income attributable to noncontrolling interest in subsidiary	—	—	(30)	—	(30)
Net income (loss) attributable to The New Home Company Inc.	\$5,547	\$8,270	\$ (40)	\$ (8,230)	\$ 5,547

THE NEW HOME COMPANY INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Nine Months Ended September 30, 2017				
	NWHM Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated NWHM
	(Dollars in thousands)				
Revenues:					
Home sales	\$—	\$ 280,957	\$ —	\$ —	\$ 280,957
Fee building	—	146,107	—	—	146,107
	—	427,064	—	—	427,064
Cost of Sales:					
Home sales	—	238,514	31	—	238,545
Home sales impairments	—	1,300	—	—	1,300
Fee building	1,449	140,184	—	—	141,633
	1,449	379,998	31	—	381,478
Gross Margin:					
Home sales	—	41,143	(31	) —	41,112
Fee building	(1,449	) 5,923	—	—	4,474
	(1,449	) 47,066	(31	) —	45,586
Selling and marketing expenses	—	(18,237	) —	—	(18,237
General and administrative expenses	(1,504	) (15,646	) —	—	(17,150
Equity in net income of unconsolidated joint ventures	—	606	—	—	606
Equity in net income of subsidiaries	8,389	—	—	(8,389) —
Other income (expense), net	171	(137	) —	—	34
Income (loss) before income taxes	5,607	13,652	(31	) (8,389	) 10,839
Benefit (provision) for income taxes	1,074	(5,242	) —	—	(4,168
Net income (loss)	6,681	8,410	(31	) (8,389	) 6,671
Net loss attributable to noncontrolling interest in subsidiary	—	—	10	—	10
Net income (loss) attributable to The New Home Company Inc.	\$6,681	\$ 8,410	\$ (21	) \$ (8,389	) \$ 6,681

	Nine Months Ended September 30, 2016				
	NWHM Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated NWHM
	(Dollars in thousands)				
Revenues:					
Home sales	\$—	\$ 241,124	\$ 5,157	\$ —	\$ 246,281
Fee building	—	125,881	—	(155	) 125,726
	—	367,005	5,157	(155	) 372,007
Cost of Sales:					
Home sales	—	207,213	4,646	—	211,859
Fee building	1,506	118,557	—	—	120,063
	1,506	325,770	4,646	—	331,922
Gross Margin:					
Home sales	—	33,911	511	—	34,422

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Fee building	(1,506)	7,324	—	(155)	5,663
	(1,506)	41,235	511	(155)	40,085
Selling and marketing expenses	—	(13,891)	(686)	—	(14,577)
General and administrative expenses	(10,032)	(7,444)	—	—	(17,476)
Equity in net income of unconsolidated joint ventures	—	4,428	—	—	4,428
Equity in net income of subsidiaries	14,678	—	—	(14,678)	—
Other income (expense), net	(61)	(542)	(142)	155	(590)
Income (loss) before income taxes	3,079	23,786	(317)	(14,678)	11,870
Benefit (provision) for income taxes	4,163	(8,881)	—	—	(4,718)
Net income (loss)	7,242	14,905	(317)	(14,678)	7,152
Net loss attributable to noncontrolling interest in subsidiary	—	—	90	—	90
Net income (loss) attributable to The New Home Company Inc.	\$7,242	\$ 14,905	\$ (227)	\$ (14,678)	\$ 7,242

THE NEW HOME COMPANY INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SUPPLEMENTAL CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended September 30, 2017

	NWHM Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated NWHM
	(Dollars in thousands)				
Net cash used in operating activities	\$(20,466)	\$(135,368)	\$ (65)	\$(4,421)	\$(160,320)
Investing activities:					
Purchases of property and equipment	(46)	(99)	—	—	(145)
Cash assumed from joint venture at consolidation	—	995	—	—	995
Contributions and advances to unconsolidated joint ventures	—	(21,296)	—	—	(21,296)
Contributions to subsidiaries from corporate	(207,849)	—	—	207,849	—
Distributions of capital from subsidiaries	50,759	—	—	(50,759)	—
Distributions of capital from unconsolidated joint ventures	—	13,650	—	—	13,650
Interest collected on advances to unconsolidated joint ventures	\$—	\$468	\$ —	\$—	\$468
Net cash used in investing activities	\$(157,136)	\$(6,282)	\$ —	\$ 157,090	\$(6,328)
Financing activities:					
Proceeds from senior notes	324,465	—	—	—	324,465
Borrowings from credit facility	72,000	—	—	—	72,000
Repayments of credit facility	(190,000)	—	—	—	(190,000)
Payment of debt issuance costs	(7,382)	—	—	—	(7,382)
Contributions to subsidiaries from corporate	—	207,849	—	(207,849)	—
Distributions to corporate from subsidiaries	—	(55,180)	—	55,180	—
Minimum tax withholding paid on behalf of employees for stock awards	(590)	—	—	—	(590)
Proceeds from exercise of stock options	102	—	—	—	102
Net cash provided by financing activities	\$198,595	\$ 152,669	\$ —	\$(152,669)	\$ 198,595
Net increase (decrease) in cash and cash equivalents	20,993	11,019	(65)	—	31,947
Cash and cash equivalents – beginning of period	16,385	13,842	269	—	30,496
Cash and cash equivalents – end of period	\$37,378	\$24,861	\$ 204	\$—	\$62,443

THE NEW HOME COMPANY INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Nine Months Ended September 30, 2016				
	NWHM Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated NWHM
	(Dollars in thousands)				
Net cash (used in) provided by operating activities	\$(16,393)	\$(122,367)	\$ 3,293	\$(11,227)	\$(146,694)
Investing activities:					
Purchases of property and equipment	(175)	(204)	—	—	(379)
Cash assumed from joint venture at consolidation	—	2,009	—	—	2,009
Contributions and advances to unconsolidated joint ventures	—	(7,707)	—	—	(7,707)
Contributions to subsidiaries from corporate	(179,004)	—	—	179,004	—
Distributions of capital from subsidiaries	41,573	725	—	(42,298)	—
Distributions of capital and repayment of advances to unconsolidated joint ventures	—	13,977	—	—	13,977
Net cash (used in) provided by investing activities	\$(137,606)	\$ 8,800	\$ —	\$ 136,706	\$ 7,900
Financing activities:					
Borrowings from senior notes and credit facility	193,000	—	—	—	193,000
Repayments of credit facility	(38,000)	—	—	—	(38,000)
Borrowings from other notes payable	—	—	343	—	343
Repayments of other notes payable	—	(13,135)	(2,501)	—	(15,636)
Payment of debt issuance costs	(1,064)	—	—	—	(1,064)
Cash distributions to noncontrolling interest in subsidiary	—	—	(725)	—	(725)
Contributions to subsidiaries from corporate	—	179,004	—	(179,004)	—
Distributions to corporate from subsidiaries	—	(52,800)	(725)	53,525	—
Minimum tax withholding paid on behalf of employees for stock awards	(647)	—	—	—	(647)
Excess income tax provision from stock-based compensation	(97)	—	—	—	(97)
Net cash provided by (used in) financing activities	\$ 153,192	\$ 113,069	\$ (3,608)	\$(125,479)	\$ 137,174
Net decrease in cash and cash equivalents	(807)	(498)	(315)	—	(1,620)
Cash and cash equivalents – beginning of period	18,129	27,140	605	—	45,874
Cash and cash equivalents – end of period	\$ 17,322	\$ 26,642	\$ 290	\$ —	\$ 44,254

17. Subsequent Events

On October 23, 2017, the Company acquired the remaining outside equity interest of our TNHC Tidelands LLC ("Tidelands") unconsolidated joint venture. TNHC Tidelands is the owner of an actively selling project in Northern California (the "Tidelands Project"). The Company paid \$13.6 million to our joint venture partner for its interest and paid off the \$4.1 million remaining balance on the joint venture's construction loan. Following the purchase, the Tidelands Project is a wholly owned active selling community of the Company.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements contained in this quarterly report on Form 10-Q other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. These forward-looking statements are frequently accompanied by words such as "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "goal," "plan" and similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs.

These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described in Part I, Item 1A, "Risk Factors" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K for the year ended December 31, 2016 and Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 1A "Risk Factors" of this quarterly report on 10-Q. The following factors, among others, may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements:

Risks related to our business, including among other things:

our geographic concentration primarily in California;

the cyclical nature of the homebuilding industry which is affected by general economic real estate and other business conditions;

availability of land to acquire and our ability to acquire such land on favorable terms or at all;

shortages of or increased prices for labor, land or raw materials used in housing construction;

the illiquid nature of real estate investments;

economic changes either nationally or in the markets in which we operate, including declines in employment, volatility of mortgage interest rates and inflation;

the degree and nature of our competition;

a large proportion of our fee building revenue being dependent upon one customer;

delays in land development or home construction resulting from adverse weather conditions, regulatory approval delays, or other events outside our control;

product liability and warranty claims, including the cost and availability of insurance;

information systems interruption or breach in security;

Risks related to laws and regulations, including among other things:

changes in, or the failure or inability to comply with, governmental laws and regulations; including environmental laws and regulations;

mortgage financing, as well as our customer's ability to obtain such financing, interest rate increases or changes in federal lending programs;

the timing of receipt of regulatory approvals and the opening of projects;

the impact of recent accounting standards;

our retention of suitable contractors and subcontractors at reasonable rates;

Risks related to financing and indebtedness, including among other things:

Volatility and uncertainty in the credit markets and broader financial markets;

our liquidity and availability, terms and deployment of capital;
issues concerning our joint venture partnerships, in which we have less than a controlling interest;
our leverage, interest expense, debt service obligations and restrictive covenants related to our operations in our
current or future financing arrangements, including under our unsecured credit facility and our senior notes;
Risks related to our structure and ownership of our common stock, including among other things:
availability of qualified personnel and our ability to retain our key personnel;
our status as an emerging growth company with a limited operating history;

the price of our common stock is subject to volatility and our trading volume is relatively low; our senior notes rank senior to our common stock upon bankruptcy or liquidation.

Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this quarterly report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

The forward-looking statements in this quarterly report on Form 10-Q speak only as of the date of this quarterly report on Form 10-Q, and we undertake no obligation to revise or publicly release any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Non-GAAP Measures

This quarterly report on Form 10-Q includes certain non-GAAP measures, including homebuilding gross margin before impairments, homebuilding gross margin before impairments percentage, adjusted homebuilding gross margin, adjusted homebuilding gross margin percentage, net debt, the ratio of net debt-to-capital, Adjusted EBITDA, Adjusted EBITDA margin percentage and the ratio of Adjusted EBITDA to total interest incurred. For a reconciliation of Adjusted EBITDA, Adjusted EBITDA margin percentage, the ratio of Adjusted EBITDA to total interest incurred, homebuilding gross margin before impairments, and homebuilding gross margin before impairments percentage to the comparable GAAP measures please see Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Selected Financial Information." For a reconciliation of adjusted homebuilding gross margin and adjusted homebuilding gross margin percentage to homebuilding gross margin under GAAP please see Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - Homebuilding Gross Margin." For a reconciliation of net debt and net debt-to-capital to the comparable GAAP measures, please see Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Debt-to-Capital Ratios."

Selected Financial Information

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2017	2016	2017	2016	
	(Dollars in thousands)				
Revenues:					
Home sales	\$ 114,622	\$ 125,142	\$ 280,957	\$ 246,281	
Fee building, including management fees from unconsolidated joint ventures of \$1,324, \$1,539, \$3,755 and \$6,251, respectively	43,309	52,761	146,107	125,726	
	157,931	177,903	427,064	372,007	
Cost of Sales:					
Home sales	95,992	105,799	238,545	211,859	
Home sales impairments	—	—	1,300	—	
Fee building	41,808	50,832	141,633	120,063	
	137,800	156,631	381,478	331,922	
Gross Margin:					
Home sales	18,630	19,343	41,112	34,422	
Fee building	1,501	1,929	4,474	5,663	
	20,131	21,272	45,586	40,085	
Home sales gross margin	16.3	% 15.5	% 14.6	% 14.0	%
Home sales gross margin before impairments ⁽¹⁾	16.3	% 15.5	% 15.1	% 14.0	%
Fee building gross margin	3.5	% 3.7	% 3.1	% 4.5	%
Selling and marketing expenses	(6,860)	(6,055)	(18,237)	(14,577)	
General and administrative expenses	(6,465)	(6,468)	(17,150)	(17,476)	
Equity in net income of unconsolidated joint ventures	99	488	606	4,428	
Other income (expense), net	69	(195)	34	(590)	
Income before income taxes	6,974	9,042	10,839	11,870	
Provision for income taxes	(2,656)	(3,465)	(4,168)	(4,718)	
Net income	4,318	5,577	6,671	7,152	
Net (income) loss attributable to noncontrolling interest	—	(30)	10	90	
Net income attributable to The New Home Company Inc.	\$4,318	\$5,547	\$6,681	\$7,242	
Interest incurred	\$6,780	\$2,273	\$15,217	\$5,243	
Adjusted EBITDA ⁽²⁾	\$10,248	\$11,855	\$21,508	\$15,871	
Adjusted EBITDA margin percentage	6.5	% 6.7	% 5.0	% 4.3	%
			LTM ⁽³⁾ Ended September 30,		
			2017	2016	
Interest incurred			\$17,458	\$6,670	
Adjusted EBITDA ⁽²⁾			\$48,781	\$41,766	
Adjusted EBITDA margin percentage ⁽²⁾			6.5	% 7.4	%
Ratio of Adjusted EBITDA to total interest incurred ⁽²⁾			2.8x	6.3x	

Home sales gross margin before impairments (also referred to as homebuilding gross margin before impairments) (1) is a non-GAAP measure. The table below reconciles this non-GAAP financial measure to homebuilding gross margin, the nearest GAAP equivalent.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017	%	2016	%	2017	%	2016	%
	(Dollars in thousands)							
Home sales revenue	\$114,622	100.0%	\$125,142	100.0%	\$280,957	100.0%	\$246,281	100.0%
Cost of home sales	95,992	83.7%	105,799	84.5%	239,845	85.4%	211,859	86.0%
Homebuilding gross margin	18,630	16.3%	19,343	15.5%	41,112	14.6%	34,422	14.0%
Add: Home sales impairments	—	—%	—	—%	1,300	0.5%	—	—%
Homebuilding gross margin before impairments ⁽¹⁾	\$18,630	16.3%	\$19,343	15.5%	\$42,412	15.1%	\$34,422	14.0%

Adjusted EBITDA, Adjusted EBITDA margin percentage and ratio of Adjusted EBITDA to total interest incurred are non-GAAP measures. Adjusted EBITDA margin percentage is calculated as a percentage of total revenue. Management believes that Adjusted EBITDA, which is a non-GAAP measure, assists investors in understanding and comparing the operating characteristics of homebuilding activities by eliminating many of the differences in (2) companies' respective capitalization, interest costs, tax position and inventory impairments. Due to the significance of the GAAP components excluded, Adjusted EBITDA should not be considered in isolation or as an alternative to net income, cash flows from operations or any other performance measure prescribed by GAAP. The table below reconciles net income (loss), calculated and presented in accordance with GAAP, to Adjusted EBITDA, Adjusted EBITDA margin percentage and ratio of Adjusted EBITDA to total interest incurred.

	Three Months Ended		Nine Months Ended		LTM ⁽³⁾ Ended	
	September 30, 2017	2016	September 30, 2017	2016	September 30, 2017	2016
	(Dollars in thousands)					
Net income	\$4,318	\$5,577	\$6,671	\$7,152	\$20,445	\$19,365
Add:						
Interest amortized to cost of sales and other expense	2,453	1,306	5,719	3,017	8,033	4,698
Provision for income taxes	2,656	3,465	4,168	4,718	12,474	11,976
Depreciation and amortization	108	130	344	381	474	505
Amortization of equity-based compensation	780	860	2,086	2,602	2,955	3,761
Cash distributions of income from unconsolidated joint ventures	—	836	1,588	1,931	3,399	9,894
Non-cash impairments and abandonments	32	169	1,538	498	5,120	582
Less:						
Gain from notes payable principal reduction	—	—	—	—	(250)	—
Equity in income of unconsolidated joint ventures	(99)	(488)	(606)	(4,428)	(3,869)	(9,015)
Adjusted EBITDA	\$10,248	\$11,855	\$21,508	\$15,871	\$48,781	\$41,766
Total Revenue	\$157,931	\$177,903	\$427,064	\$372,007	\$749,513	\$566,633
Adjusted EBITDA margin percentage	6.5%	6.7%	5.0%	4.3%	6.5%	7.4%
Interest incurred	\$6,780	\$2,273	\$15,217	\$5,243	\$17,458	\$6,670
					2.8x	6.3x

Ratio of Adjusted EBITDA to total
interest incurred

(3) "LTM" indicates amounts for the trailing 12 months.

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Overview

Solid buyer demand for new homes in California continued into the 2017 third quarter. Net new orders were up 27% year-over-year and the dollar value of our backlog was \$330.6 million, a 14% increase over the prior year third quarter. This increase was driven by a monthly sales absorption rate of 2.5 sales per community, which represents a 47% improvement over our prior year period. Additionally, our average selling price decreased from \$2.1 million to \$1.4 million as we continued to execute on our strategy to diversify our home offerings by including more affordably-priced product.

Our net income for the 2017 third quarter was \$4.3 million, or \$0.21 per diluted share, compared to \$5.5 million, or \$0.27 per diluted share, in the prior year period. The decrease in net income was primarily due to a 8% decline in home sales revenue, a 120 basis point increase in selling and marketing expenses as a percent of home sales revenues, and decreases in fee building revenue and joint venture income. The decrease in home sales revenue was attributable to a decline in average selling price primarily due to a product mix shift, as our home closing deliveries increased 40% year-over-year. Partially offsetting these items, our homebuilding gross margin increased 80 basis points to 16.3% and 190 basis points to 18.4%* when excluding interest in cost of sales.

As a result of the strong sales absorption pace during the first nine months of 2017 coupled with the timing of new community openings and project close-outs, our wholly-owned community count decreased to 12 at the end of the 2017 third quarter, which was consistent with our expectations. We opened four new communities during the 2017 third quarter and anticipate opening five new communities in the 2017 fourth quarter, all of which are expected to be priced below \$750,000.

The Company ended the quarter with \$62 million in cash and cash equivalents, no debt outstanding under its \$200 million unsecured revolving credit facility, a debt-to-capital ratio of 55.7%, and a net debt-to-capital ratio of 50.3%*. In addition, the Company improved its lot portfolio by growing its wholly-owned lot count by 39% to 2,203 lots, of which over 60% were controlled through option contracts.

*Adjusted homebuilding gross margin (or homebuilding gross margin excluding interest in cost of sales) and net debt-to-capital ratio are non-GAAP measures. For a reconciliation to the appropriate GAAP measures, please see Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Homebuilding Gross Margin." and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Debt-to-Capital Ratios."

Results of Operations

Net New Home Orders

	Three Months Ended September 30,		Increase/(Decrease)		Nine Months Ended September 30,		Increase/(Decrease)			
	2017	2016	Amount	%	2017	2016	Amount	%		
Net new home orders:										
Southern California	43	39	4	10	%	143	105	38	36	%
Northern California	38	25	13	52	%	162	79	83	105	%
Total	81	64	17	27	%	305	184	121	66	%
Selling communities at end of period:										
Southern California						7	8	(1)	(13)	%
Northern California						5	5	—	—	%
Total						12	13	(1)	(8)	%

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Average selling communities	11	12	(1)	(8)%	12	11	1	9	%	
Monthly sales absorption rate per community ⁽¹⁾	2.5	1.7	0.8	47	%	2.8	1.8	1.0	56	%
Cancellation rate	11 %	11 %	— %	N/A	9 %	12 %	(3)%	N/A		

(1) Monthly sales absorption represents the number of net new home orders divided by the number of average selling communities for the period.

Net new home orders for the 2017 third quarter increased 27% as compared to the same period in 2016 primarily due to an increase in the monthly sales absorption rate. The improvement in absorption rate was driven by solid order activity in both Southern and Northern California. Southern California experienced monthly absorption of 2.2 sales per community, compared to 1.8 in the prior year period, while high buyer demand resulted in a 52% increase in monthly sales absorption to 2.9 sales per

community for Northern California compared to the 2016 third quarter. The Company continued to experience modest cancellation rates during 2017 with cancellation rates of 11% and 9%, respectively, for the three and nine months ended September 30, 2017. We believe our cancellation rate is one of the lower rates in the industry due to many factors, including the high level of personalized options that our homebuyers select for our higher-priced product, which we believe creates an emotional attachment, and a higher proportion of affluent buyers with strong credit profiles.

Net new home orders for the nine months ended September 30, 2017 were up 66% over the prior year period primarily due to an increase in monthly absorption rates in both Southern California and Northern California. Monthly absorption for Southern California increased to 2.4 sales per community for the nine months ended September 30, 2017 from 1.9 sales per community for the nine months ended September 30, 2016. In Northern California, the monthly absorption rate doubled to 3.4 sales per community for the nine months ended September 30, 2017 compared to 1.7 for the same period in 2016.

Backlog

	As of September 30,			2016			% Change		
	2017	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price
	(Dollars in thousands)								
Southern California	103	\$274,037	\$2,661	92	\$262,224	\$2,850	12 %	5 %	(7 %)
Northern California	79	56,602	716	37	27,971	756	114 %	102 %	(5 %)
Total	182	\$330,639	\$1,817	129	\$290,195	\$2,250	41 %	14 %	(19 %)

Backlog reflects the number of homes, net of cancellations, for which we have entered into a sales contract with a customer, but for which we have not yet delivered the home. The dollar value of backlog was up 14% year-over-year to \$330.6 million, notwithstanding increased order activity from new communities with more relatively affordably-priced product. The increase was primarily due to a 41% increase in the number of homes in backlog, which was partially offset by a 19% decrease in average selling price in backlog due to a product mix shift. The increase in the number of homes in backlog as of September 30, 2017 compared to the prior year period was largely the result of higher monthly sales absorption rates. The higher dollar value and average selling price in Southern California backlog as compared to Northern California was due to higher-priced communities in the Newport Coast area of Southern California where we have two coastal luxury communities where average home prices in backlog range from \$4.8 million to \$7.8 million.

Lots Owned and Controlled

	September 30,		Increase/(Decrease)	
	2017	2016	Amount	%
Lots Owned:				
Southern California	579	287	292	102 %
Northern California	268	339	(71)	(21)%
Total	847	626	221	35 %
Lots Controlled: ⁽¹⁾				
Southern California	348	693	(345)	(50)%
Northern California	669	265	404	152 %
Arizona	339	—	339	NA
Total	1,356	958	398	42 %
Total Lots Owned and Controlled - Wholly Owned	2,203	1,584	619	39 %
Fee Building ⁽²⁾	815	981	(166)	(17)%

Total Lots Owned and Controlled	3,018	2,565	453	18	%
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(1) Includes lots that we control under purchase and sale agreements or option agreements subject to customary conditions and have not yet closed. There can be no assurance that such acquisitions will occur.

(2) Lots owned by third party property owners for which we perform general contracting services.

Consistent with our focus on growing our wholly owned business, the Company increased the number of wholly owned lots owned and controlled by 39% year-over-year to 2,203 lots, 62% of which were controlled through option contracts.

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The increase in wholly owned lots owned and controlled was due to our planned expansion in Arizona where we entered into contracts on four land parcels totaling 339 aggregate lots, as well as one contract for 394 lots in a larger development in Folsom, CA.

The decrease in fee building lots at September 30, 2017 compared to the prior year period was attributable to the Company delivering a substantial number of homes in the last twelve months ended September 30, 2017, offset partially by contracts from the Company's largest customer awarded in the 2017 second quarter for five new fee building communities totaling 587 lots.

Home Sales Revenue and New Homes Delivered

	Three Months Ended September 30, 2017			2016			% Change		
	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price
	(Dollars in thousands)								
Southern California	39	\$79,494	\$2,038	36	\$105,789	\$2,939	8%	(25)%	(31)%
Northern California	45	35,128	781	24	19,353	806	88%	82%	(3)%
Total	84	\$114,622	\$1,365	60	\$125,142	\$2,086	40%	(8)%	(35)%

	Nine Months Ended September 30, 2017			2016			% Change		
	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price	Homes	Dollar Value	Average Price
	(Dollars in thousands)								
Southern California	88	\$190,696	\$2,167	67	\$189,996	\$2,836	31%	—%	(24)%
Northern California	114	90,261	792	64	56,285	879	78%	60%	(10)%
Total	202	\$280,957	\$1,391	131	\$246,281	\$1,880	54%	14%	(26)%

New home deliveries increased 40% during the 2017 third quarter as compared to the same period in 2016. The increase in deliveries was the result of a higher number of homes in backlog at the beginning of the period and an increase in net new home orders during the 2017 third quarter. While home deliveries were up, home sales revenue decreased 8% during the 2017 third quarter as compared to the prior year period primarily due to a 35% decline in average sales price per delivery as Northern California accounted for a larger proportion of deliveries in the 2017 period, as well as a product mix shift in our Southern California deliveries. The mix shift in Southern California is consistent with the Company's strategy to expand its product portfolio to include more affordably-priced homes. The average selling price for Southern California during the 2017 third quarter was influenced by deliveries from our higher-priced luxury product in Newport Coast, but was partially offset by two lower-priced communities in Irvine, CA. We expect to see a higher average sales price on a consolidated basis and in Southern California in the 2017 fourth quarter as we deliver more homes from our two Crystal Cove communities in Newport Coast, CA.

New home deliveries increased 54% for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The increase in deliveries was the result of a higher number of homes in backlog at December 31, 2016 and an increase in net new home orders during the nine month period. Home sales revenue for the nine months ended September 30, 2017 increased 14% compared to the same period in 2016 primarily due to an increase in new home deliveries, offset partially by a 26% decline in average sales price per delivery for the period. The year-over-year decrease in average sales price related to increased contributions from Northern California and a product mix shift for both Southern California and Northern California as deliveries from lower-priced communities increased in proportion to total new home deliveries.

Homebuilding Gross Margin

Homebuilding gross margin for the 2017 third quarter was 16.3%, compared to 15.5% for the 2016 third quarter. The 80 basis point improvement in homebuilding gross margin during the 2017 third quarter was primarily due to a change in product mix, including the favorable impact of higher margin communities located in Santa Clara in the Bay Area and Newport Coast in Southern California. Excluding interest in cost of home sales, the adjusted homebuilding gross margin percentages for the three months ended September 30, 2017 and September 30, 2016 were 18.4% and 16.5%, respectively. Adjusted homebuilding gross

margin is a non-GAAP measure. See the table below reconciling this non-GAAP financial measure to homebuilding gross margin, the nearest GAAP equivalent.

Homebuilding gross margin for the nine months ended September 30, 2017 was 14.6% versus 14.0% in the prior period and for the 2017 period, included a \$1.3 million non-cash inventory impairment charge related to one homebuilding community in Southern California due to slow monthly sales absorption and our determination that additional incentives would be required. Excluding inventory impairment charges, homebuilding gross margin before impairments for the nine months ended September 30, 2017 was 15.1% versus 14.0% for the same period in 2016. The 110 basis point improvement in homebuilding gross margin before impairments was primarily due to a change in product mix. Excluding home sales impairments and interest in cost of home sales, the adjusted homebuilding gross margin percentages for the nine months ended September 30, 2017 and September 30, 2016 were 17.1%, and 15.2%, respectively. Homebuilding gross margin before impairments and adjusted homebuilding gross margin are non-GAAP measures. See the table below reconciling these non-GAAP financial measures to homebuilding gross margin, the nearest GAAP equivalent.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017	%	2016	%	2017	%	2016	%
	(Dollars in thousands)							
Home sales revenue	\$114,622	100.0%	\$125,142	100.0%	\$280,957	100.0%	\$246,281	100.0%
Cost of home sales	95,992	83.7%	105,799	84.5%	239,845	85.4%	211,859	86.0%
Homebuilding gross margin	18,630	16.3%	19,343	15.5%	41,112	14.6%	34,422	14.0%
Add: Home sales impairments	—	—%	—	—%	1,300	0.5%	—	—%
Homebuilding gross margin before impairments ⁽¹⁾	18,630	16.3%	19,343	15.5%	42,412	15.1%	34,422	14.0%
Add: Interest in cost of home sales	2,448	2.1%	1,306	1.0%	5,719	2.0%	3,017	1.2%
Adjusted homebuilding gross margin ⁽¹⁾	\$21,078	18.4%	\$20,649	16.5%	\$48,131	17.1%	\$37,439	15.2%

Homebuilding gross margin before impairments and adjusted homebuilding gross margin are non-GAAP financial measures. We believe this information is meaningful as it isolates the impact that home sales impairments and ⁽¹⁾ leverage have on homebuilding gross margin and permits investors to make better comparisons with our competitors who also break out and adjust gross margins in a similar fashion.

Fee Building

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017	%	2016	%	2017	%	2016	%
	(Dollars in thousands)							
Fee building revenues	\$43,309	100.0%	\$52,761	100.0%	\$146,107	100.0%	\$125,726	100.0%
Cost of fee building	41,808	96.5%	50,832	96.3%	141,633	96.9%	120,063	95.5%
Fee building gross margin	\$1,501	3.5%	\$1,929	3.7%	\$4,474	3.1%	\$5,663	4.5%

Our fee building revenues include (i) billings to third-party land owners for general contracting services and (ii) management fees from our unconsolidated joint ventures for construction and sales management services. Cost of fee building includes (i) labor, subcontractor, and other indirect construction and development costs that are reimbursable by the land owner and (ii) general and administrative, or G&A, expenses that are attributable to fee building activities and joint venture management overhead. Besides allocable G&A expenses, there are no other material costs associated with management fees from our unconsolidated joint ventures.

Billings to land owners are a function of construction activity and reimbursable costs are incurred as homes are started. The total billings and reimbursable costs are driven by the pace at which the land owner executes its development plan. Management fees from our unconsolidated joint ventures are collected over the project's life and increase as homes and lots are delivered.

For the three months ended September 30, 2017, fee building revenues decreased 18% from the prior year period primarily due to a decrease in costs incurred from fee building activity resulting from a lower number of homes under construction during the period. Included in fee building revenues for the three months ended September 30, 2017 and 2016 were (i) \$42.0 million and \$51.2 million of billings to land owners, respectively, and (ii) \$1.3 million and \$1.5 million of management fees from our unconsolidated joint ventures, respectively. Our fee building revenues have historically been

concentrated with a small number of customers. For the three months ended September 30, 2017 and 2016, one customer comprised 97% of fee building revenue.

For the three months ended September 30, 2017, cost of fee building decreased due to the decrease in fee building activity, compared to the same period during 2016. The amount of G&A expenses included in the cost of fee building was \$1.9 million and \$2.2 million for the three months ended September 30, 2017 and 2016, respectively. Fee building gross margin percentage decreased to 3.5% for the three months ended September 30, 2017 from 3.7% in the prior year period. The decrease in fee building gross margins was due to lower fee revenues and a reduction in management fees received from joint ventures.

For the nine months ended September 30, 2017, fee building revenues increased 16% from the prior year period primarily due to an increase in costs incurred from fee building activity resulting from a higher number of homes under construction during the period. Included in fee building revenues for the nine months ended periods were (i) \$142.4 million and \$119.5 million of billings to land owners, respectively, and (ii) \$3.8 million and \$6.3 million of management fees from our unconsolidated joint ventures, respectively. The decrease in JV management fees was primarily the result of fewer deliveries and lower land sales revenues from JV communities. For the nine months ended September 30, 2017 and 2016, one customer comprised 97% and 95% of fee building revenue, respectively.

For the nine months ended September 30, 2017, cost of fee building increased due to the increase in fee building activity, compared to the same period during 2016. The amount of G&A expenses included in the cost of fee building was \$6.5 million and \$6.6 million for the nine months ended September 30, 2017 and 2016, respectively. Fee building gross margin percentage decreased to 3.1% for the nine months ended September 30, 2017 from 4.5% in the prior year period. The decrease in fee building gross margins was substantially due to a decrease in management fees received from joint ventures.

Selling, General and Administrative Expenses

	Three Months Ended		As a Percentage of Home Sales Revenue				Nine Months Ended		As a Percentage of Home Sales Revenue			
	September 30,		2017		2016		September 30,		2017		2016	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	(Dollars in thousands)											
Selling and marketing expenses	\$6,860	\$6,055	6.0 %	4.8 %	\$18,237	\$14,577	6.5 %	5.9 %				
General and administrative expenses ("G&A")	6,465	6,468	5.6 %	5.2 %	17,150	17,476	6.1 %	7.1 %				
Total selling, marketing and G&A ("SG&A")	\$13,325	\$12,523	11.6 %	10.0 %	\$35,387	\$32,053	12.6 %	13.0 %				

During the 2017 third quarter, our SG&A rate as a percentage of home sales revenue increased to 11.6% from 10.0%. The 160 basis point increase was due to higher selling and marketing costs related to the ramp-up of new communities, increased co-broker commissions and model operating costs, and reduced operating leverage from an 8% decrease in home sales revenue.

For the nine months ended September 30, 2017, our SG&A expense ratio was 12.6%, a 40 basis point improvement from 13.0% for the same period in 2016. The improvement was largely attributable to the increase in home sales revenue driven by an increase in new home deliveries, and to a lesser extent, slightly lower G&A expenses.

Equity in Net Income of Unconsolidated Joint Ventures

As of September 30, 2017 and 2016, we had ownership interests in 11 and 13 unconsolidated joint ventures, respectively. We own interests in our unconsolidated joint ventures that generally range from 5% to 35% and these interests vary by entity.

The Company's share of joint venture income for the three months ended September 30, 2017 was \$0.1 million as compared to \$0.5 million for the same period in 2016. Lower gross margins from joint venture home sales, the timing of recognition of income due to joint venture distribution waterfalls and lower land sale revenues contributed to the year-over-year decrease in the Company's share of joint venture income. The decrease in joint venture homes sales gross margin was primarily due to increased deliveries in the 2017 third quarter from four Sacramento communities with lower margins than the communities that were delivering in the 2016 third quarter, which included our

higher-margin Orchard Park project in the Bay Area, which delivered its last home in the 2017 first quarter. The Company's share of joint venture income for the nine months ended September 30, 2017 was \$0.6 million as compared to \$4.4 million for the same period in 2016. The decrease in the Company's share of income was in large part due to the close out of an unconsolidated joint venture known as Lambert Ranch (or "LR8") in the 2016 second quarter, which

produced an income allocation of \$0.5 million prior to close out and a gain of \$1.1 million due to the purchase of our joint venture partner's interest for less than its carrying value. Additionally, a reduction in joint venture revenues from decreased lot sales, lower gross margins from joint venture home sales, and timing of recognition of income due to joint venture distribution waterfalls also contributed to the year-over-year decrease in the Company's share of joint venture income. The decrease in joint venture homes sales gross margin was primarily due to a mix shift in deliveries, including deliveries in the 2017 period from five Sacramento communities with lower margins that did not have deliveries in 2016 as well as the close out of our higher-margin Orchard Park project in the Bay Area, which delivered its last home in the 2017 first quarter. The decrease in the Company's share of joint venture income was partially offset by the close out of the Larkspur unconsolidated joint venture in the 2017 second quarter, which produced an income allocation of \$0.1 million prior to close out and a gain of \$0.3 million due to the purchase of our JV partner's interest for less than its carrying value. The joint venture close outs mentioned are discussed in further detail within Note 11, "Related Party Transactions," in our accompanying Condensed Consolidated Financial Statements. The following sets forth supplemental operational and financial information about our unconsolidated joint ventures. Such information is not included in our financial data for GAAP purposes, but is recognized in our results as a component of equity in net income (loss) of unconsolidated joint ventures. This data is included for informational purposes only.

	Three Months Ended September 30, 2017				Nine Months Ended September 30, 2017				
	2017	2016	Increase/(Decrease) Amount	%	2017	2016	Increase/(Decrease) Amount	%	
(Dollars in thousands)									
Unconsolidated Joint Ventures									
Net new home orders	43	35	8	23 %	136	111	25	23 %	
New homes delivered	50	23	27	117 %	115	123	(8)	(7)%	
Average sales price of homes delivered	\$905	\$855	\$50	6 %	\$910	\$858	\$52	6 %	
Home sales revenue	\$45,242	\$19,659	\$25,583	130 %	\$104,628	\$105,558	\$(930)	(1)%	
Land sales revenue	647	14,805	(14,158)	(96)%	3,052	40,967	(37,915)	(93)%	
Total revenue	\$45,889	\$34,464	\$11,425	33 %	\$107,680	\$146,525	\$(38,845)	(27)%	
Net income (loss)	\$426	\$2,417	\$(1,991)	(82)%	\$(1,092)	\$16,378	\$(17,470)	(107)%	
Selling communities at end of period					8	8	—	— %	
Backlog (dollar value)					\$69,834	\$85,317	\$(15,483)	(18)%	
Backlog (homes)					83	88	(5)	(6)%	
Average sales price of backlog					\$841	\$970	\$(129)	(13)%	
Homebuilding lots owned and controlled					398	661	(263)	(40)%	
Land development lots owned and controlled					2,415	2,415	—	— %	
Total lots owned and controlled					2,813	3,076	(263)	(9)%	

Provision for Income Taxes

For the three months ended September 30, 2017 and 2016, the Company recorded a provision for income taxes of \$2.7 million and \$3.5 million, respectively. For the nine months ended September 30, 2017 and 2016, the Company recorded a provision for income taxes of \$4.2 million and \$4.7 million, respectively. Included in the nine month period for 2016 is an allocation of income from LR8 of \$0.5 million due to a reduction in the warranty reserve and a \$1.1 million gain from the closeout of LR8 due to the purchase of our JV partner's interest for less than its carrying value, which resulted in a provision for income taxes of \$0.6 million for the nine month period ended September 30,

2016 and did not impact our effective tax rate. The effective tax rate for the three and nine months ended September 30, 2017 and 2016 differs from the 35% federal statutory tax rate due to state income taxes partially offset by the tax benefit of production activities.

Liquidity and Capital Resources

Overview

Our principal sources of capital for the nine months ended September 30, 2017 were proceeds from the sale of our senior notes due 2022, cash generated from home sales activities, advances from our unsecured revolving credit facility, distributions from our unconsolidated joint ventures, and management fees from our fee building agreements. Our principal uses of capital for the nine months ended September 30, 2017 were land purchases, land development, home construction, repayments on our revolving credit facility, contributions and advances to our unconsolidated joint ventures, operating expenses and the payment of routine liabilities.

Cash flows for each of our communities depend on their stage in the development cycle, and can differ substantially from reported earnings. Early stages of development or expansion require significant cash outlays for land acquisitions, entitlements and other approvals, and construction of model homes, roads, utilities, general landscaping and other amenities. Because these costs are a component of our real estate inventories and not recognized in our consolidated statement of operations until a home is delivered, we incur significant cash outlays prior to our recognition of earnings. In the later stages of community development, cash inflows may significantly exceed earnings reported for financial statement purposes, as the cash outflow associated with home and land construction was previously incurred. From a liquidity standpoint, we are actively acquiring and developing lots to increase our lot supply and community count. As we continue to expand our business, we expect cash outlays for land purchases, land development and home construction to exceed our cash generated by operations.

We ended the third quarter of 2017 with \$62.4 million of cash and cash equivalents, a \$31.9 million increase from December 31, 2016, primarily as a result of the issuance of our senior notes due 2022. We expect to generate cash from the sale of our inventory, but intend to redeploy the net cash generated from the sale of inventory to acquire and develop strategic, well-positioned lots that represent opportunities to generate future income and cash flows.

As of September 30, 2017 and December 31, 2016, we had \$10.6 million and \$22.8 million, respectively, in accounts payable that related to costs incurred under our fee building agreements. Funding to pay these amounts is the obligation of the third-party land owner, which is generally funded on a monthly basis. Similarly, contracts and accounts receivable as of the same dates included \$11.7 million and \$24.3 million, respectively, related to the payment of the above payables.

We intend to utilize both debt and equity as part of our ongoing financing strategy, coupled with redeployment of cash flows from continuing operations, to provide us with the financial flexibility to operate our business. In that regard, we expect to employ prudent levels of leverage to finance the acquisition and development of our lots and construction of our homes. As of September 30, 2017, we had outstanding borrowings of \$325 million in aggregate principal related to our senior notes. We will consider a number of factors when evaluating our level of indebtedness and when making decisions regarding the incurrence of new indebtedness, including the purchase price of assets to be acquired with debt financing, the estimated market value of our assets and the ability of particular assets, and our company as a whole, to generate cash flow to cover the expected debt service. In addition, our debt contains certain financial covenants that limits the amount of leverage we can maintain.

We intend to finance future acquisitions and developments with what we believe to be the most advantageous source of capital available to us at the time of the transaction, which may include unsecured corporate level debt, property-level debt, and other public, private or bank debt, or common and preferred equity. Additionally, we have an existing effective shelf registration statement that allows us to issue equity, debt or hybrid securities up to \$349.7 million as of September 30, 2017.

Senior Notes Due 2022

On March 17, 2017, the Company completed the sale of \$250 million in aggregate principal amount of 7.25% Senior Unsecured Notes due 2022 (the "Existing Notes"), in a private placement. The Notes were issued at an offering price of 98.961% of their face amount, which represents a yield to maturity of 7.50%. On May 4, 2017, the Company completed a tack-on private placement offering through the sale of an additional \$75 million in aggregate principal amount of the 7.25% Senior Notes due 2022 ("Additional Notes"). The Additional Notes were issued at an offering price of 102.75% of their face amount plus accrued interest since March 17, 2017, which represented a yield to maturity of 6.438%. Net proceeds from the Existing Notes were used to repay all borrowings outstanding under the

Company's senior unsecured revolving credit facility with the remainder to be used for general corporate purposes. Net proceeds from the Additional Notes will be used for working capital, land acquisition and general corporate purposes. Interest on the Existing Notes and the Additional Notes (the "Original Notes") will be paid semiannually in arrears on April 1 and October 1, which commenced on October 1, 2017. The Notes will mature on April 1, 2022. In accordance with its obligations under two registration rights agreements executed in connection with the private placements of the Original Notes, on September 8, 2017, the Company completed an exchange offer of the Original Notes for an equal principal amount of 7.25% Senior Notes due 2022 (the "Notes") which terms are identical in all material respects to the Original Notes except that the Notes are registered under the Securities Act of 1933, as amended (the "Securities Act") and are freely tradeable in accordance with applicable law.

The Notes contain certain restrictive covenants, including a limitation on additional indebtedness and a limitation on restricted payments. Restricted payments include, among other things, dividends, investments in unconsolidated entities, and stock repurchases. Under the limitation on additional indebtedness, we are permitted to incur specified categories of indebtedness but are prohibited, aside from those exceptions, from incurring further indebtedness if we do not satisfy either a leverage condition or an interest coverage condition. The leverage and interest coverage conditions are summarized in the table below, as described and defined further in the indenture for the Notes. Exceptions to the additional indebtedness limitation include, among other things, borrowings of up to \$260 million under existing or future bank credit facilities, non-recourse indebtedness, and indebtedness incurred for the purpose of refinancing or repaying certain existing indebtedness. Under the limitation on restricted payments, we are also prohibited from making restricted payments, aside from certain exceptions, if we do not satisfy either condition. In addition, the amount of restricted payments that we can make is subject to an overall basket limitation, which builds based on, among other things, 50% of consolidated net income from January 1, 2017 and 100% of the net cash proceeds from qualified equity offerings. Exceptions to the foregoing limitations on our ability to make restricted payments include, among other things, investments in joint ventures and other investments up to 15% of our consolidated tangible net assets and a general basket of \$15 million. The Notes are guaranteed by all of the Company's 100% owned subsidiaries, for more information about these guarantees, please see Note 16.

September 30,
2017

Financial Conditions

Actual Requirement

Fixed Charge Coverage Ratio: EBITDA to Consolidated Interest Incurred 2.8 > 2.0 : 1.0

Leverage Ratio: Indebtedness to Tangible Net Worth 1.26 < 2.25 : 1.0

As of September 30, 2017, we were able to satisfy both the leverage condition and the interest coverage condition. The foregoing conditions are further defined and described in the indenture for the Notes.

Senior Unsecured Revolving Credit Facility

The Company's unsecured revolving credit facility ("Credit Facility") is with a bank group. On September 27, 2017, the Company entered into a Modification Agreement (the "Modification") to its Credit Facility. The Modification, among other things, (i) extends the maturity date of the revolving credit facility to September 1, 2020, (ii) decreases (A) the total commitments under the facility to \$200 million from \$260 million and (B) the accordion feature to \$300 million from \$350 million, (iii) revises certain financial covenants, including the tangible net worth, minimum liquidity, and interest coverage tests, in addition to providing relief on compliance with the interest coverage test so long as the Company maintains cash equal to not less than the trailing twelve month consolidated interest incurred, and (iv) adds certain wholly owned subsidiaries as guarantors.

A portion of the net proceeds from the sale of our senior notes due 2022 was used to repay the outstanding balance of the Credit Facility. As of September 30, 2017, there was no outstanding balance on the Credit Facility. Interest is payable monthly and is charged at a rate of 1-month LIBOR plus a margin ranging from 2.25% to 3.00% depending on the Company's leverage ratio as calculated at the end of each fiscal quarter. As of September 30, 2017, the interest rate under the Credit Facility was 3.98%. Pursuant to the Credit Facility, the Company is required to maintain certain financial covenants as defined in the Credit Facility, including, but not limited to, those listed in the following table. The table below reflects any updates to covenant requirements that resulted from the modification agreement.

Financial Covenants	September 30, 2017	
	Actual	Covenant Requirement
	(Dollars in thousands)	
Unencumbered Liquid Assets (Minimum Liquidity Covenant)	\$62,443	\$ 10,000 ⁽¹⁾
EBITDA to Interest Incurred ⁽²⁾	2.8	> 1.75 : 1.0
Tangible Net Worth	\$252,802	\$ 182,159
Leverage Ratio	51.3	% < 65%
Adjusted Leverage Ratio ⁽³⁾	NA	< 50%

(1) So long as the Company is in compliance with the interest coverage test, the minimum unencumbered liquid assets that the Company must maintain as of the quarter end measurement date is \$10 million. If the Company is not in compliance with the interest coverage test, the minimum liquidity requirement as of each quarter end measurement date is not less than the trailing 12 month consolidated interest incurred.

(2) The modification of the Credit Facility executed September 27, 2017, provides relief on compliance with the interest coverage test. If the test is not met, it will not be considered an event of default so long as the Company maintains cash equal to not less than the trailing 12 month consolidated interest incurred.

(3) Adjusted Leverage Ratio is computed as total joint venture debt divided by total joint venture equity. The Adjusted Leverage Ratio requirement ceases to apply as of and after the fiscal quarter in which consolidated tangible net worth is at least \$250 million. During any period when the Adjusted Leverage Ratio ceases to apply, consolidated tangible net worth shall be reduced by an adjustment equal to the aggregate amount of investments in and advance to unconsolidated joint ventures that exceed 35% of consolidated tangible net worth as calculated without giving effect to this adjustment (the "Adjustment Amount"). At September 30, 2017, the Company's consolidated tangible net worth exceeded \$250 million and the Adjusted Leverage Ratio ceased to apply. In addition, the Adjustment Amount was considered in the calculation of consolidated tangible net worth.

As of September 30, 2017, we were in compliance with all financial covenants under our Credit Facility.

Debt-to-Capital Ratios

We believe that debt-to-capital ratios provide useful information to the users of our financial statements regarding our financial position and leverage. Net debt-to-capital ratio is a non-GAAP financial measure. See the table below reconciling this non-GAAP measure to debt-to-capital ratio, the nearest GAAP equivalent.

	September 30, 2017	December 31, 2016
	(Dollars in thousands)	
Total debt, net	\$318,452	\$118,000
Equity, exclusive of noncontrolling interest	252,802	244,523
Total capital	\$571,254	\$362,523
Ratio of debt-to-capital ⁽¹⁾	55.7 %	32.5 %
Total debt, net	\$318,452	\$118,000
Less: cash, cash equivalents and restricted cash	62,656	31,081
Net debt	255,796	86,919
Equity, exclusive of noncontrolling interest	252,802	244,523
Total capital	\$508,598	\$331,442
Ratio of net debt-to-capital ⁽²⁾	50.3 %	26.2 %

(1) The ratio of debt-to-capital is computed as the quotient obtained by dividing total debt, net by the sum of total debt plus equity, exclusive of noncontrolling interest.

The ratio of net debt-to-capital is computed as the quotient obtained by dividing net debt (which is total debt, net less cash to the extent necessary to reduce the debt balance to zero) by total capital, exclusive of noncontrolling interest. The most directly comparable GAAP financial measure is the ratio of debt-to-capital. We believe the ratio (2) of net debt-to-capital is a relevant financial measure for investors to understand the leverage employed in our operations and as an indicator of our ability to obtain financing. We believe that by deducting our cash from our debt, we provide a measure of our indebtedness that takes into account our cash liquidity. We believe this provides useful information as the ratio of debt-to-capital does not take into

account our liquidity and we believe that the ratio net of cash provides supplemental information by which our financial position may be considered. Investors may also find this to be helpful when comparing our leverage to the leverage of our competitors that present similar information. See the table above reconciling this non-GAAP financial measure to the ratio of debt-to-capital.

Cash Flows — Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

For the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016, the comparison of cash flows is as follows:

Net cash used in operating activities was \$160.3 million for the nine months ended September 30, 2017 versus \$146.7 million for the nine months ended September 30, 2016. The year-over-year change was primarily a result of a net increase in cash outflows for real estate inventories of \$179.6 million in the 2017 period compared to \$159.8 million in the 2016 period due to greater land spend and increased construction in progress offset partially by increased home sales revenues as compared to the prior year period.

Net cash used in investing activities was \$6.3 million for the nine months ended September 30, 2017 compared to \$7.9 million provided by investing activities for the nine months ended September 30, 2016. For the nine months ended September 30, 2017, our net contributions and advances to unconsolidated joint ventures were \$7.6 million compared to a net distribution from unconsolidated joint ventures of \$6.3 million during the nine months ended September 30, 2016 and was the primary reason net cash used in investing activities increased. The reduction in distributions from unconsolidated joint ventures primarily related to the reduction in revenues and profits, and the completion of certain joint venture communities.

Net cash provided by financing activities was \$198.6 million for the nine months ended September 30, 2017 versus \$137.2 million for the nine months ended September 30, 2016. The increase was primarily due to an increase in net borrowings, in particular the issuance of our Senior Notes due 2022.

Off-Balance Sheet Arrangements and Contractual Obligations

Option Contracts

In the ordinary course of business, we enter into land option contracts in order to procure lots for the construction of our homes. We are subject to customary obligations associated with entering into contracts for the purchase of land and improved lots. These purchase contracts typically require a cash deposit and the purchase of properties under these contracts is generally contingent upon satisfaction of certain requirements by the sellers, including obtaining applicable property and development entitlements. We also utilize option contracts with land sellers as a method of acquiring land in staged takedowns, to help us manage the financial and market risk associated with land holdings, to reduce the use of funds from our corporate financing sources, and to enhance our return on capital. Option contracts generally require a non-refundable deposit for the right to acquire lots over a specified period of time at pre-determined prices. We generally have the right at our discretion to terminate our obligations under both purchase contracts and option contracts by forfeiting our cash deposit with no further financial responsibility to the land seller. In some instances, we may also expend funds for due diligence and development activities with respect to our option contracts prior to purchase which we would have to write off should we not purchase the land. As of September 30, 2017, we had \$38.1 million of non-refundable and \$0.1 million of refundable cash deposits pertaining to land option contracts and purchase contracts with an estimated aggregate remaining purchase price of \$329.4 million (net of deposits). These cash deposits are included as a component of our real estate inventories in our consolidated balance sheets.

Our utilization of land option contracts is dependent on, among other things, the availability of land sellers willing to enter into option arrangements, the availability of capital to financial intermediaries to finance the development of optioned lots, general housing market conditions, and local market dynamics. Options may be more difficult to procure from land sellers in strong housing markets and are more prevalent in certain geographic regions.

Joint Ventures

We enter into land development and homebuilding joint ventures from time to time as means of:

- leveraging our capital base
- accessing larger or desirable lot positions
- expanding our market opportunities
- managing financial and market risk associated with land holdings
- establishing strategic alliances

These joint ventures have historically obtained secured acquisition, development and/or construction financing which reduces the use of funds from our corporate financing sources.

The Company has provided credit enhancements in connection with joint venture borrowings in the form of loan-to-value (“LTV”) maintenance agreements in order to secure the joint venture's performance under the loans and maintenance of certain LTV ratios. The Company has also entered into agreements with its partners in each of the unconsolidated joint ventures whereby the Company and its partners are apportioned liability under the LTV maintenance agreements according to their respective capital interest. In addition, the agreements provide the Company, to the extent its partner has an unpaid liability under such credit enhancements, the right to receive distributions from the unconsolidated joint venture that would otherwise be made to the partner. However, there is no guarantee that such distributions will be made or will be sufficient to cover the share of the liability apportioned to us. The loans underlying the LTV maintenance agreements comprise acquisition and development loans, construction revolvers and model home loans, and the agreements remain in force until the loans are satisfied. Due to the nature of the loans, the outstanding balance at any given time is subject to a number of factors including the status of site improvements, the mix of horizontal and vertical development underway, the timing of phase build outs, and the period necessary to complete the escrow process for homebuyers. As of September 30, 2017 and December 31, 2016, \$46.4 million and \$56.0 million, respectively, was outstanding under loans that are credit enhanced by the Company through LTV maintenance agreements. Under the terms of the joint venture agreements, the Company's proportionate share of LTV maintenance agreement liabilities was \$8.0 million and \$8.6 million, respectively, as of September 30, 2017 and December 31, 2016. In addition, the Company has provided completion agreements regarding specific performance for certain projects whereby the Company is required to complete the given project with funds provided by the beneficiary of the agreement. If there are not adequate funds available under the specific project loans, the Company would then be subject to financial liability under such completion guaranties. Typically, under such terms of the joint venture agreements, the Company has the right to apportion the respective share of any costs funded under such completion guaranties to its partners. However, there is no guarantee that we will be able to recover against our partners for such amounts owed to us under the terms of such joint venture agreements. In connection with joint venture borrowings, the Company also selectively provides (a) an environmental indemnity provided to the lender that holds the lender harmless from and against losses arising from the discharge of hazardous materials from the property and non-compliance with applicable environmental laws; and (b) indemnification of the lender from “bad boy acts” of the unconsolidated entity such as fraud, misrepresentation, misapplication or non-payment of rents, profits, insurance, and condemnation proceeds, waste and mechanic liens, and bankruptcy. During October 2017, the Company acquired the remaining outside equity interest of our TNHC Tidelands LLC unconsolidated joint venture. The Company paid \$13.6 million to our joint venture partner for its interest and paid off the \$4.1 million remaining balance on the joint venture's construction loan.

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As of September 30, 2017, we held ownership interests in 11 unconsolidated joint ventures, seven of which related to homebuilding activities and four related to land development as noted below. We were a party to four loan-to-value maintenance agreements related to unconsolidated joint ventures as of September 30, 2017. The following table reflects certain financial and other information related to our unconsolidated joint ventures as of September 30, 2017:

Joint Venture (Project Name)	Year Formed	Location	Ownership %	September 30, 2017 Total Joint Venture			NWHM Equity (2)	Loan-to- Value Debt-to- Capital Maintenance Agreement	Future Capital Commitment	Lots Owned and Controlled (3)
				Assets	Debt ⁽¹⁾	Equity				
(Dollars in 000's)										
TNHC-HW San Jose LLC (Orchard Park)	2012	San Jose, CA	15%	3,827	—	1,643	493	— % N/A	—	—
TNHC-TCN Santa Clarita LP (Villa Metro) ⁽⁴⁾	2012	Santa Clarita, CA	10%	1,441	—	816	204	— % N/A	—	—
TNHC Newport LLC (Meridian) ⁽⁴⁾	2013	Newport Beach, CA	12%	3,426	—	1,500	264	— % N/A	—	—
Encore McKinley Village LLC (McKinley Village)	2013	Sacramento, CA	10%	83,324	21,917	56,585	5,664	28 % Yes	—	274
TNHC Russell Ranch LLC (Russell Ranch) ⁽⁴⁾⁽⁵⁾	2013	Folsom, CA	35%	73,116	20,153	40,204	15,856	33 % No	23,929	870
TNHC-HW Foster City LLC (Foster Square) ⁽⁵⁾	2013	Foster City, CA	35%	2,871	—	1,543	717	— % N/A	—	—
Calabasas Village LP (Avanti) ⁽⁴⁾	2013	Calabasas, CA	10%	50,424	8,009	39,812	5,041	17 % Yes	—	35
TNHC-HW Cannery LLC (Cannery Park) ⁽⁵⁾	2013	Davis, CA	35%	12,403	—	8,385	2,934	— % N/A	—	110
Arantine Hills Holdings LP (Bedford Ranch) ⁽⁴⁾⁽⁵⁾	2014	Corona, CA	5%	134,990	—	134,409	6,719	— % N/A	2,370	1,435
TNHC Tidelands	2015	San Mateo, CA	20%	21,967	5,001	16,377	4,750	23 % Yes	—	24

LLC (Tidelands) TNHC Mountain Shadows LLC (Mountain Shadows)	2015	Paradise Valley, AZ	25%	67,510	34,584	29,909	7,951	54 %	Yes	—	65
Total Unconsolidated Joint Ventures				\$455,299	\$89,664	\$331,183	\$50,593	21 %		\$26,299	2,813

The carrying value of the debt is presented net of \$0.6 million in unamortized debt issuance costs. Scheduled maturities of the unconsolidated joint venture debt as of September 30, 2017 are as follows: \$12.7 million matures in 2017, \$44.2 matures in 2018 and \$33.4 million matures in 2019. Projects at McKinley Village and Mountain Shadows have multiple debt instruments, some of which do not have LTV maintenance agreements.

Represents the Company's equity in unconsolidated joint ventures. Equity does not include \$5.1 million in advances to unconsolidated joint ventures and \$1.1 million of interest capitalized to certain investments in unconsolidated joint ventures which along with equity, are included in investments in and advances to unconsolidated joint ventures in the accompanying condensed consolidated balance sheets.

Estimated future capital commitment represents our proportionate share of estimated future contributions to the respective unconsolidated joint ventures as of September 30, 2017. Actual contributions may differ materially.

Certain members of the Company's board of directors are affiliated with entities that have an investment in these joint ventures.

Land development joint venture.

As of September 30, 2017, the unconsolidated joint ventures were in compliance with their respective loan covenants, where applicable, and we were not required to make any loan-to-value maintenance related payments during the three and nine months ended September 30, 2017.

Seasonality

Historically, the homebuilding industry experiences seasonal fluctuations in quarterly operating results and capital requirements. We typically experience the highest new home order activity in spring and summer, although this activity is also highly dependent on the number of active selling communities, timing of new community openings and other market factors. Since it typically takes five to nine months to construct a new single-family home, we deliver more homes in the second half of the year as spring and summer home orders convert to home deliveries. Because of this seasonality, home starts, construction costs and related cash outflows have historically been highest in the second and third quarters, and a higher level of cash receipts from home deliveries occurs during the second half of the year. We expect this seasonal pattern to continue over the long-term, although it may be affected by volatility in the homebuilding industry and the timing of community openings and cycle times based on product type.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting policies generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Management evaluates such estimates and judgments on an on-going basis and makes adjustments as deemed necessary. Actual results could differ from these estimates if conditions are significantly different in the future.

Our critical accounting estimates and policies have not changed from those reported in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2016.

Recently Issued Accounting Standards

The portion of Note 1 to the accompanying notes to unaudited condensed consolidated financial statements under the heading "Recently Issued Accounting Standards" included in this quarterly report on Form 10-Q is incorporated herein by reference.

JOBS Act

We qualify as an "emerging growth company" pursuant to the provisions of the JOBS Act. For as long as we are an "emerging growth company," we may elect certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies," including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our annual reports and proxy statements, and exemptions from the requirements of holding shareholder advisory "say-on-pay" votes on executive compensation.

In addition, Section 107 of the JOBS Act also provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. An "emerging growth company" can therefore delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we have chosen to "opt out" of such extended transition period and, as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information about our market risk is disclosed in Part II, Item 7A, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, and is incorporated herein by reference.

In addition, on March 17, 2017, the Company completed the sale of \$250 million in aggregate principal amount of 7.25% Senior Notes due 2022 in a private placement. The notes were issued at an offering price of 98.961% of their face amount, which represents a yield to maturity of 7.50%. On May 4, 2017, the Company completed a tack-on private placement through the sale of an additional \$75 million in aggregate principal amount of the 7.25% Senior Notes due 2022. The additional notes were issued at an offering price of 102.75% of their face amount plus accrued interest since March 17, 2017, which represents a yield to maturity of 6.438%. During the 2017 third quarter, pursuant to its obligations under two registration rights agreements with the initial purchasers, the Company exchanged its 7.25% Senior Notes due 2022 for exchange notes registered under the Securities Act (the "Notes"). The Notes represent fixed-rate debt. For fixed-rate debt, changes in interest rates generally affect the fair market value of the debt instrument, but not our earnings or cash flow. For a discussion regarding the fair value of the Notes, see Note 9, "Fair Value Disclosures" to our consolidated financial statements included elsewhere in this report, which is incorporated herein by reference.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure controls and procedures are designed to provide a reasonable level of assurance of reaching our desired disclosure control objectives. In designing and evaluating controls and procedures specified in the SEC's rules and forms, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error and mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of controls.

At the end of the period being reported upon, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2017.

Change in Internal Controls

There was no change in the Company's internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various claims and litigation arising in the ordinary course of business. We do not believe that any such claims and litigation will materially affect our results of operations or financial position. For more information regarding how we account for legal proceedings, see Note 10, "Commitments and Contingencies," to our Condensed Consolidated Financial Statements included elsewhere in this report, which is incorporated herein by reference.

Item 1A. Risk Factors

The following Risk Factors under the heading "Risks Related to Our Indebtedness" below amend and restate the Risk Factors set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 under the headings "Our level of indebtedness may adversely affect our financial position and prevent us from fulfilling our debt obligations"; "Our current financing arrangements contain, and our future financing arrangements will likely contain, restrictive covenants relating to our operations"; and "Interest expense on debt we incur may limit our cash available to fund our growth strategies."

Risks Related to Our Indebtedness

Our level of indebtedness may adversely affect our financial condition and prevent us from fulfilling our debt obligations, and we may incur additional debt in the future.

The homebuilding industry is capital intensive and requires significant up-front expenditures to secure land and pursue development and construction on such land. Accordingly, we incur substantial indebtedness to finance our homebuilding activities. As discussed elsewhere in this filing, including the Management's Discussion and Analysis of Financial Condition and Result of Operations - Liquidity and Capital Resources, the Company has issued \$325 million in aggregate principal amount of 7.25% Senior Notes due 2022 which are registered under the Securities Act (the "Notes"). As of September 30, 2017, we had approximately \$318.5 million in aggregate principal amount of debt outstanding, net of the unamortized discount of \$2.3 million, unamortized premium of \$1.9 million, and \$6.1 million of debt issuance costs. In addition, we have \$200 million in debt commitments under our revolving credit facility, of which no indebtedness is outstanding or utilized to provide letters of credit and \$200.0 million is available for borrowing, subject to satisfaction of the financial covenants and borrowing base requirements in our revolving credit facility. Moreover, the terms of the indenture governing the Notes and our revolving credit facility permit us to incur additional debt, in each case, subject to certain restrictions. Incurring substantial debt subjects us to many risks that, if realized, would adversely affect us, including the risk that:

- our ability to obtain additional financing as needed for working capital, land acquisition costs, building costs, other capital expenditures, or general corporate purposes, or to refinance existing indebtedness before its scheduled maturity, may be limited;
- our debt may increase our vulnerability to adverse economic and industry conditions with no assurance that investment yields will increase with higher financing costs;
- we may be required to dedicate a portion of our cash flow from operations to payments on our debt, thereby reducing funds available for other purposes such as land and lot acquisition, development and construction activities;
 - our cash flow from operations may be insufficient to make required payments of principal of and interest on the debt, which would likely result in acceleration of the maturity of such debt;
- we may be put at a competitive disadvantage and reduce our flexibility in planning for, or responding to, changing conditions in our industry, including increased competition; and
- the terms of any refinancing may not be as favorable as the terms of the debt being refinanced.

Our ability to meet our expenses depends, to a large extent, on our future performance, which will be affected by financial, business, economic and other factors. We will not be able to control many of these factors, such as economic conditions in the markets where we operate and pressure from competitors. If we do not have sufficient funds, we may be required to refinance all or part of our existing debt, sell assets or borrow additional funds. We cannot guarantee that we will be able to do so on terms acceptable to us, if at all. If we are unable to refinance our debt on acceptable terms, we may be forced to dispose of our assets on disadvantageous terms, potentially resulting in

losses. To the extent we cannot meet any future debt service obligations, we may lose some or all of our assets that may be pledged to secure our obligations to foreclosure. Also, debt agreements may contain specific cross-default provisions with respect to specified other indebtedness, giving the lenders the right to declare a default if we are in default under other loans in some circumstances. Defaults under our debt agreements could have a material adverse effect on our business, prospects, liquidity, financial condition and results of operations.

Our current financing arrangements contain, and our future financing arrangements likely will contain, restrictive covenants relating to our operations.

Our current financing arrangements, including the Indenture governing the Notes, contain covenants (financial and otherwise) affecting our ability to incur additional debt, make certain investments, reduce liquidity below certain levels, make distributions to our stockholders and otherwise affect our operating policies. These restrictions limit our ability to, among other things:

- incur or guarantee additional indebtedness or issue certain equity interests;
- pay dividends or distributions, repurchase equity or prepay subordinated debt;
- make certain investments;
- sell assets;
- incur liens;
- create certain restrictions on the ability of restricted subsidiaries to transfer assets;
- enter into transactions with affiliates;
- create unrestricted subsidiaries; and
- consolidate, merge or sell all or substantially all of our assets.

In addition, our revolving credit facility contains a maximum leverage ratio of less than 65%, which, as defined in our credit agreement, is calculated on a net debt basis after a minimum liquidity threshold. Our leverage ratio as of September 30, 2017, as calculated under our revolving credit facility, was approximately 51%. Failure to have sufficient borrowing base availability in the future or to be in compliance with our maximum leverage ratio under our revolving credit facility could have a material adverse effect on our operations and financial condition.

A breach of the covenants under the Indenture or any of the other agreements governing our indebtedness could result in an event of default under the Indenture or other such agreements.

A default under the Indenture governing the Notes or our revolving credit facility or other agreements governing our indebtedness may allow our creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In addition, an event of default under the credit agreement governing our revolving credit facility would permit the lenders thereunder to terminate all commitments to extend further credit under our revolving credit facility. Furthermore, if we were unable to repay the amounts due and payable under any future secured credit facilities, those lenders could proceed against the collateral granted to them to secure that indebtedness. In the event our lenders or the holders of our notes accelerate the repayment of our borrowings, we cannot assure you that we and our subsidiaries would have sufficient assets to repay such indebtedness. As a result of these restrictions, we may be:

- limited in how we conduct our business;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities. These restrictions may affect our ability to grow in accordance with our plans.

Potential future downgrades of our credit ratings could adversely affect our access to capital and could otherwise have a material adverse effect on us.

Rating agencies may elect in the future to downgrade our corporate credit rating or any rating of the notes due to deterioration in our homebuilding operations, credit metrics or other earnings-based metrics, as well as our leverage or a significant decrease in our tangible net worth. These ratings and our current credit condition affect, among other things, our ability to access new capital, especially debt, and negative changes in these ratings may result in more stringent covenants and higher interest rates under the terms of any new debt. Our credit ratings could be downgraded or rating agencies could issue adverse commentaries in the future, which could have a material adverse effect on our business, results of operations, financial condition and liquidity. In particular, a weakening of our financial condition, including a significant increase in our leverage or decrease in our profitability or cash flows, could adversely affect our ability to obtain necessary funds, result in a credit rating downgrade or change in outlook, or otherwise increase our cost of borrowing.

Interest expense on debt we incur may limit our cash available to fund our growth strategies.

As of September 30, 2017, we had approximately \$318.5 million in aggregate principal amount of debt outstanding, net of the unamortized discount of \$2.3 million, unamortized premium of \$1.9 million, and \$6.1 million of debt issuance costs. In addition, we have \$200.0 million in debt commitments under our revolving credit facility, of which no indebtedness is outstanding or utilized to provide letters of credit and \$200.0 million is available for borrowing, subject to satisfaction of the financial covenants and borrowing base requirements in our senior unsecured revolving credit facility. As part of our

financing strategy, in addition to our sale of the Notes, we may incur a significant amount of additional debt. Our revolving credit facility has, and any additional debt we subsequently incur may have, a floating rate of interest. Our Notes have a fixed rate of interest. We may incur fixed rate debt in the future that may be at a higher interest rate than our floating rate debt. Higher interest rates could increase debt service requirements on our current floating rate debt and on any floating or fixed rate debt we subsequently incur, and could reduce funds available for operations, future business opportunities or other purposes. If we need to repay existing debt during periods of rising interest rates, we could be required to refinance our then-existing debt on unfavorable terms or liquidate one or more of our assets to repay such debt at times that may not permit realization of a favorable return on such assets and could result in a loss. The occurrence of either such event or both could materially and adversely affect our business, prospects, liquidity, financial condition and results of operations.

We may be unable to repurchase the Notes upon a change of control as required by the Indenture.

Upon the occurrence of certain specific kinds of change of control events, we must offer to repurchase the notes at 101% of their principal amount, plus accrued and unpaid interest thereon. In such circumstances, we cannot assure you that we would have sufficient funds available to repay all of our indebtedness that would become payable upon a change of control and to repurchase all of the notes. Our failure to purchase the notes would be a default under the Indenture.

The following risk factor is added to the Risk Factors set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 under the heading "Risks Related to Laws and Regulations"

We may be unable to find and retain suitable contractors and subcontractors at reasonable rates.

The enactment of federal, state or local statutes, ordinances, rules or regulations requiring the payment of prevailing wages on private residential developments would materially increase our costs of development and construction. In January 2017, a bill was introduced in the California State Assembly that may require developers and homebuilders of private residential projects to comply with the requirements for "public works" projects in the state, including the payment of prevailing wages. Most of our business is conducted in California, and it is possible that depending upon how such bill is interpreted that the passage of this bill would materially increase our costs of development and construction, which could materially and adversely affect our financial condition and results of operations. Access to qualified labor at reasonable rates may also be affected by other circumstances beyond our control, including: (i) shortages of qualified tradespeople, such as carpenters, roofers, electricians and plumbers; (ii) high inflation; (iii) changes in laws relating to employment and union organizing activity; (iv) changes in trends in labor force migration; and (v) increases in contractor, subcontractor and professional services costs. The inability to contract with skilled contractors and subcontractors at reasonable rates on a timely basis could materially and adversely affect our financial condition and results of operations.

We could be responsible for employment-related liabilities with respect to our contractors' employees.

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, on October 14, 2017, California's governor signed into law Assembly Bill 1701, which would require general contractors to assume and be liable for unpaid wage, fringe or other benefit payments or contributions that subcontractors owe their employees. Assembly Bill 1701 imposes such liability under California Labor Code Section 218.7 for private works contracts entered on or after January 1, 2018. We are, and may become in the future, subject to similar measures and legislation, such as California Labor Code Section 2810.3, that requires us to share liability with our contractors for the payment of wages and the failure to secure valid workers' compensation insurance coverage. While the Company ordinarily negotiates with its subcontractors to obtain broad indemnification rights, there is no guarantee that it will be able to recover from its subcontractors for actions brought against the Company by its subcontractors' employees or unions representing such employees and such liability could have a material and adverse effect on our financial performance. Even if we are successful in obtaining indemnification from our subcontractors, we may sustain additional administrative costs as a result of such legislation which could materially and adversely affect our financial performance. In addition, despite the fact that our subcontractors are independent from us, if regulatory agencies reclassify the employees of contractors as employees of homebuilders, homebuilders using contractors could be responsible for wage and hour labor laws, workers' compensation and other employment-related liabilities of their

contractors. Governmental rulings that make us responsible for labor practices by our subcontractors could create substantial exposures for us in situations that are not within our control. Other than the items set forth above, there have been no material changes to the risk factors disclosed under Part I, Item 1A “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Purchases of Equity Securities by the Issuer

The Company did not make any purchases of its common stock during the three months ended September 30, 2017.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit
Number Exhibit Description

- 3.1 Amended and Restated Certificate of Incorporation of The New Home Company Inc. (incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2013)
- 3.2 State of Delaware Certificate of Change of Registered Agent and/or Registered Office (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on August 1, 2016)
- 3.3 Amended and Restated Bylaws of The New Home Company Inc. (incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K filed on August 1, 2016)
- 4.1 Specimen Common Stock Certificate of The New Home Company Inc. (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-1 (Amendment No. 10, filed on January 24, 2014))
- 4.2 Investor Rights Agreement among The New Home Company Inc., TNHC Partners LLC, IHP Capital Partners VI, LLC, Watt/TNHC LLC, TCN/TNHC LP and collectively H. Lawrence Webb, Wayne J. Stelmar, Joseph D. Davis and Thomas Redwitz (incorporated by reference to Exhibit 4.2 of the Company's Annual Report on Form 10-K for the year ended December 31, 2013)
- 4.3* Second Supplemental Indenture dated as of July 28, 2017 between the Company, the guaranteeing subsidiaries, as defined herein, and U.S. Bank National Association.
- 4.4* Third Supplemental Indenture dated as of September 18, 2017 between the Company, DMB/TNHC LLC and U.S. Bank National Association.
- 10.1*+ Limited Liability Company Agreement of TNHC Russell Ranch LLC, dated as of May 22, 2013, between TNHC Land Company LLC and IHP Capital Partners VI, LLC
- 10.2*+ First Amendment to Limited Liability Company Agreement of TNHC Russell Ranch LLC, dated as of August 4, 2017, between TNHC Land Company LLC and IHP Capital Partners VI, LLC
- 10.3 Modification Agreement, dated as of September 27, 2017, among The New Home Company Inc., U.S. Bank National Association, d/b/a Housing Capital Company, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 2, 2017).
- 31.1* Chief Executive Officer Section 302 Certification of Periodic Report dated October 27, 2017
- 31.2* Chief Financial Officer Section 302 Certification of Periodic Report dated October 27, 2017
- 32.1** Chief Executive Officer Section 906 Certification of Periodic Report dated October 27, 2017
- 32.2** Chief Financial Officer Section 906 Certification of Periodic Report dated October 27, 2017
- 101* The following materials from The New Home Company Inc.'s Annual Report on Form 10-Q for the quarter ended September 30, 2017, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated

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Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statement of Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Unaudited Consolidated Financial Statements.

* Filed herewith

Furnished herewith. The information in Exhibits 32.1 and 32.2 shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities of that section, nor shall they be deemed incorporated

**by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act (including this Report), unless the Registrant specifically incorporates the foregoing information into those documents by reference.

+ Certain confidential information contained in this Exhibit was omitted by means of redacting a portion of the text and replacing it with an asterisk. This Exhibit has been filed separately with the Secretary of the Securities and Exchange Commission without the redaction pursuant to a Confidential Treatment Request under Rule 24b-2 of the Exchange Act.

SIGNATURES

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

The New Home Company
Inc.

By: /s/ H. Lawrence Webb
H. Lawrence Webb
Chief Executive Officer

By: /s/ John M. Stephens
John M. Stephens
Chief Financial Officer

Date: October 27, 2017