New Home Co Inc.
Form 10-Q
April 29, 2016

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

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016 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 Incorporation or Organization)	(I.R.S. Employer 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

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 ý 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 ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No ý
Registrant's shares of common stock outstanding as of April 27, 2016: 20,708,973

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements

THE NEW HOME COMPANY INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2016	December 31, 2015
	(Dollars in thousands, except per share amounts)	
	(Unaudited)	
Assets		
Cash and cash equivalents	$43,928	$45,874
Restricted cash	843	380
Contracts and accounts receivable	18,085	23,960
Due from affiliates	880	979
Real estate inventories	334,009	209,918
Investment in unconsolidated joint ventures	48,717	60,572
Other assets	11,266	9,587
Total assets	$457,728	$351,270
Liabilities and equity		
Accounts payable	$32,377	$26,371
Accrued expenses and other liabilities	9,268	19,827
Due to affiliates	263	293
Unsecured revolving credit facility	189,924	74,924
Other notes payable	4,810	8,158
Total liabilities	236,642	129,573
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, 20,708,973 and 20,543,130, shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	207	205
Additional paid-in capital	194,693	194,437
Retained earnings	25,319	26,133
Total The New Home Company Inc. stockholders' equity	220,219	220,775
Noncontrolling interest in subsidiary	867	922
Total equity	221,086	221,697
Total liabilities and equity	$457,728	$351,270

See accompanying notes to the unaudited condensed consolidated financial statements.

THE NEW HOME COMPANY INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
	2016	2015
	(Dollars in thousands, except per share amounts)	
Revenues:		
Home sales	$42,303	$ 56,235
Fee building, including management fees from unconsolidated joint ventures of $2,175 and $2,968, respectively	42,937	46,630
	85,240	102,865
Expenses:		
Cost of homes sales	36,670	47,408
Cost of fee building	40,914	43,777
Selling and marketing	3,476	2,150
General and administrative	5,175	3,660
	86,235	96,995
Equity in net income (loss) of unconsolidated joint ventures	(7)	1,868
Other expense, net	(109)	(308)
Income (loss) before income taxes	(1,111)	7,430
Benefit (provision) for income taxes	242	(2,885)
Net income (loss)	(869)	4,545
Net loss attributable to noncontrolling interest	55	24
Net income (loss) attributable to The New Home Company Inc.	$(814)	$ 4,569
Earnings (loss) per share attributable to The New Home Company Inc.		
Basic	$(0.04)	$ 0.28
Diluted	$(0.04)	$ 0.28
Weighted average shares outstanding:		
Basic	20,599,014	16,487,859
Diluted	20,599,014	16,574,280

See accompanying notes to the unaudited condensed consolidated financial statements.

THE NEW HOME COMPANY INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF EQUITY

	Stockholders' Equity						
	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interest in Subsidiary	Total Equity
	(Dollars in thousands)						
Balance at December 31, 2015	20,543,130	$ 205	$194,437	$26,133	$ 220,775	$ 922	$221,697
Net loss	—	—	—	(814)	(814)	(55)	(869)
Stock-based compensation expense	—	—	985	—	985	—	985
Minimum tax withholding paid on behalf of employees for stock awards	—	—	(630)	—	(630)	—	(630)
Tax valuation adjustment from stock-based compensation	—	—	(97)	—	(97)	—	(97)
Shares issued through stock plans	165,843	2	(2)	—	—	—	—
Balance at March 31, 2016	20,708,973	$ 207	$194,693	$25,319	$ 220,219	$ 867	$221,086

See accompanying notes to the unaudited condensed consolidated financial statements.

THE NEW HOME COMPANY INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2016	2015
	(Dollars in thousands)	
Operating activities:		
Net income (loss)	$(869)	$4,545
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Deferred taxes	(27)	(5,841)
Amortization of equity based compensation	985	254
Tax valuation adjustment from stock-based compensation	97	—
Distributions of earnings from unconsolidated joint ventures	—	2,702
Equity in net (income) loss of unconsolidated joint ventures	7	(1,868)
Deferred profit from unconsolidated joint ventures	312	(978)
Depreciation and amortization	125	113
Abandoned project costs	149	115
Net changes in operating assets and liabilities:		
Restricted cash	138	138
Contracts and accounts receivable	5,875	(3,572)
Due from affiliates	53	1,505
Real estate inventories	(100,725)	(11,215)
Other assets	(1,603)	5,556
Accounts payable	5,470	3,546
Accrued expenses and other liabilities	(10,723)	(4,530)
Due to affiliates	(30)	—
Net cash used in operating activities	(100,766)	(9,530)
Investing activities:		
Purchases of property and equipment	(174)	(155)
Contributions to unconsolidated joint ventures	(4,327)	(2,131)
Distributions of capital from unconsolidated joint ventures	3,531	6,492
Net cash provided by (used in) investing activities	(970)	4,206
Financing activities:		
Borrowings from credit facility and other notes payable	115,339	21,677
Repayments of credit facility and other notes payable	(14,822)	(8,623)
Minimum tax withholding paid on behalf of employees for stock awards	(630)	—
Tax valuation adjustment from stock-based compensation	(97)	—
Net cash provided by financing activities	99,790	13,054
Net increase (decrease) in cash and cash equivalents	(1,946)	7,730
Cash and cash equivalents – beginning of period	45,874	44,058
Cash and cash equivalents – end of period	$43,928	$51,788

See accompanying notes to the unaudited condensed consolidated financial statements.
See Supplemental Disclosure of Cash Flow Information in Note 15.

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, 2015. 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 consolidated financial statements and notes. Accordingly, actual results could differ materially from these estimates.

Reclassifications

Certain items in prior year financial statements related to capitalized selling and marketing expenses have been reclassified to conform with current year presentation.

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. Corporate is a non-operating segment.

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 $0.8 million and $0.4 million as of March 31, 2016 and December 31, 2015, 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 expense, net, when 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 allocation of construction costs of each home and 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 costs are generally allocated prospectively to remaining homes in the project.

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 fair value. We review our real estate assets at each project 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 and 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 cash flows are more than the asset's carrying value, no impairment adjustment is required. However, if the undiscounted 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 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 sales. These objectives may vary significantly from project to project and over time. If assets are considered impaired, impairment is determined by the amount the asset's carrying value exceeds its fair value. Fair value is determined based on estimated future cash flows discounted for inherent risks associated with real estate assets. These discounted cash flows are impacted by expected risk based on estimated land development; construction and delivery timelines; market risk of price erosion; uncertainty of development or construction cost increases; and other risks specific to the asset or market conditions where the asset is located when assessment is made. These factors are specific to each project and may vary among projects. For the three months ended March 31, 2016 and 2015, no impairment adjustments relating to homebuilding real estate inventories were recorded.

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 component of cost 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 or increase in loss 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.

Revenue Recognition

Home Sales and Profit Recognition

In accordance with ASC 360, revenues from home sales and other real estate sales are recorded and a profit is recognized when the respective homes are closed. 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. When it is determined that the earnings process is not complete, the sale and related profit are deferred for recognition

THE NEW HOME COMPANY INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

in future periods. 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.”

Fee Building

The Company enters into fee building agreements to provide services whereby it will build homes on behalf of independent third-party property owners. The independent 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 independent 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 fixed fee based on a percentage of the cost or home sales revenue of the project depending on the terms of the agreement with the independent third-party property owner. In accordance with ASC 605, Revenue Recognition (“ASC 605”), revenues from fee building services are recognized over 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 its customers. These costs are passed through to customers and, in accordance with industry practice and GAAP, are included in the Company’s revenue and cost of revenue. Under certain agreements, the Company is eligible to receive additional incentive compensation as certain financial thresholds defined in the agreement are achieved. The Company recognizes revenue for any incentive compensation when such financial thresholds are probable of being met and such compensation is deemed to be collectible, generally at the date the amount is communicated to us by the independent third-party property owner.

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 this approach, 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 while 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 months ended March 31, 2016 and 2015, one customer comprised 95% and 94% of fee building revenue, respectively. The balance of the fee building revenues represented management fees earned from unconsolidated joint ventures. As of March 31, 2016 and December 31, 2015, one customer comprised 72% and 74% of contracts and accounts receivables, respectively.

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. 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 March 31, 2016 and December 31, 2015, 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 variable interest entity; however, the Company determined it was required to consolidate the joint venture as it is the managing member with the powers to direct the major decisions of the entity. As of March 31, 2016 and December 31, 2015, the third-party investor had made contributions of $0.9 million and $0.9 million, respectively, net of losses and distributions.

Investments in Unconsolidated Joint Ventures

We first analyze our homebuilding and land development joint ventures to determine if they are variable interest entities under the provisions of ASC 810 when determining whether the entity should be consolidated. If we conclude that our homebuilding and land development joint ventures are not variable interest entities, then, in accordance with the provisions of ASC 810, limited partnerships or similar entities must be further evaluated under the presumption that the general partner, or the managing member in the case of a limited liability company, is deemed to have a controlling interest and therefore must consolidate the entity unless the limited partners or non-managing members have: (1) the ability, either by a single limited partner or through a simple majority vote, to dissolve or liquidate the entity, or kick-out the managing member/general partner without cause, or (2) substantive participatory rights that are exercised in the ordinary course of business. Under the provisions of ASC 810, we may be required to consolidate certain investments in which we hold a general partner or managing member interest.

As of March 31, 2016 and December 31, 2015, the Company concluded that some of its joint ventures were variable interest entities. The Company concluded that it was not the primary beneficiary of the variable interest entities and accounted for these entities under the equity method of accounting.

Investments in our unconsolidated joint ventures are accounted for 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. Our ownership interests in our unconsolidated joint ventures vary, but are generally less than or equal to 35%. The unconsolidated joint ventures accounting policies are generally 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 unconsolidated joint ventures for evidence of other-than-temporary declines in value. To the extent we deem any portion of our investment in unconsolidated joint ventures as not recoverable, we impair our investment accordingly. For the three months ended March 31, 2016 and 2015, no impairments related to investment in unconsolidated joint ventures were recorded.

The Company selectively provides loan-to-value (“LTV”) maintenance agreements and completion guaranties for debt held by its unconsolidated joint ventures. Such arrangements facilitated the financing of our joint ventures' development projects and arose in the ordinary course of business. Refer to Note 11 for more information discussing the LTV maintenance agreements and completion guaranties.

Selling and Marketing Expense

Selling and marketing costs incurred to sell real estate projects are capitalized to real estate inventories 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. Effective January 1, 2016, these costs were amortized to selling and marketing expenses rather than cost of home sales. Prior year periods have been reclassified to conform with current year presentation. The reclassification caused homebuilding gross margin to increase by approximately $0.9 million during the 2015 first quarter, or 1.6% of home sales revenue, and a corresponding increase to selling and marketing expenses by the same amount. 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 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 periods. 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. Due to the Company’s limited history related to homebuilding sales, the Company also considers the historical experience of its peers in determining the amount of its warranty accrual. In addition, the Company has received warranty payments from its customers for certain of its fee building projects that have since been closed-out where it 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.

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 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 consolidated balance sheets.
As of March 31, 2016 and December 31, 2015, 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.

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 are 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. Actual results could differ from estimates.

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. Per the agreement, Mr. Davis' outstanding restricted stock units and stock option 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 Mr. Davis' consulting agreement noted above, we account for Mr. Davis' share-based awards in accordance with ASC 505-50.

ASC 505-50 requires that Mr. Davis' award be accounted for prospectively, such that the fair value of the award 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 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.

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”), enacted on April 5, 2012. 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 Accounting Standards Update (“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. 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 result, for public companies, ASU 2014-09 will be effective for interim and annual reporting periods beginning after December 15, 2017, and is to be applied either with a full retrospective or modified retrospective approach, with early application permitted, but not before the original effective date. We are currently evaluating the impact the adoption will have on our condensed consolidated financial statements and related disclosures.

In February 2016, the FASB issued Accounting Standards Update 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. For public entities, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. ASU 2016-02 mandates a modified retrospective transition method. This guidance is not expected to have a material impact on our consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update 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. For public entities, ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

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2. Computation of Earnings (Loss) Per Share

The following table sets forth the components used in the computation of basic and diluted earnings (loss) per share for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
	2016	2015
	(Dollars in thousands, except per share amounts)	
Numerator:		
Net income (loss) attributable to The New Home Company Inc.	$(814)	$ 4,569
Denominator:		
Basic weighted-average shares outstanding	20,599,014	16,487,859
Effect of dilutive shares:		
Stock options and unvested restricted stock units	—	86,421
Diluted weighted-average shares outstanding	20,599,014	16,574,280
Basic earnings (loss) per share attributable to The New Home Company Inc.	$(0.04)	$ 0.28
Diluted earnings (loss) per share attributable to The New Home Company Inc.	$(0.04)	$ 0.28
Antidilutive stock options and unvested restricted stock units not included in diluted earnings (loss) per share	1,214,427	79,280

3. Contracts and Accounts Receivable

Contracts and accounts receivable consist of the following:

	March 31, 2016	December 31, 2015
	(Dollars in thousands)	
Contracts receivable:		
Costs incurred on fee building projects	$40,914	$139,677
Estimated earnings	2,023	10,213
	42,937	149,890
Less: amounts collected during the period	(29,970)	(132,109)
Contracts receivable	$12,967	$17,781
Contracts receivable:		
Billed	$32	$—
Unbilled	12,935	17,781
	12,967	17,781
Accounts receivable:		

Escrow receivables	5,118	6,179
Contracts and accounts receivable	$18,085	$23,960

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 March 31, 2016 and December 31, 2015 are expected to be billed and collected within

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90 days. Accounts payable at March 31, 2016 and December 31, 2015 includes $12.0 million and $16.7 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:

	March 31, 2016	December 31, 2015
	(Dollars in thousands)	
Deposits and pre-acquisition costs	$24,852	$17,133
Land held and land under development	59,623	57,659
Homes completed or under construction	211,675	109,805
Model homes	37,859	25,321
	$334,009	$209,918

All of our deposits and pre-acquisition costs are non-refundable, except for $0.5 million as of December 31, 2015, respectively.

Model homes, homes completed, and homes under construction include all costs associated with home construction, including land, development, indirects, permits, materials and labor. Land held and land under development includes costs incurred during site development such as land, development, indirects, and permits.

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. For the three months ended March 31, 2016 and 2015 interest incurred, capitalized and expensed was as follows:

	Three Months Ended March 31,	
	2016	2015
	(Dollars in thousands)	
Interest incurred	$1,281	$878
Interest capitalized	(1,281)	(878)
Interest expensed	$—	$—
Capitalized interest in beginning inventory	$4,190	$2,328
Interest capitalized as a cost of inventory	1,281	878
Interest previously capitalized as a cost of inventory, included in cost of sales	(648)	(359)
Capitalized interest in ending inventory	$4,823	$2,847

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5. Unconsolidated Joint Ventures

As of March 31, 2016 and December 31, 2015, the Company had ownership interests in 13 and 14, respectively, unconsolidated joint ventures with ownership percentages that generally range from 5% to 35%. The condensed combined balance sheets for our unconsolidated joint ventures accounted for under the equity method are as follows:

	March 31, 2016	December 31, 2015
	(Dollars in thousands)	
Cash and cash equivalents	$44,154	$53,936
Restricted cash	12,919	12,279
Real estate inventories	422,564	415,730
Other assets	2,108	3,972
Total assets	$481,745	$485,917
Accounts payable and accrued liabilities	$52,742	$57,813
Notes payable	113,008	94,890
Total liabilities	165,750	152,703
The Company's equity	48,717	60,572
Other partners' equity	267,278	272,642
Total equity	315,995	333,214
Total liabilities and equity	$481,745	$485,917
Debt-to-capitalization ratio	26.3 %	22.2 %

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

	Three Months Ended March 31, 2016	2015
	(Dollars in thousands)	
Revenues	$41,957	$81,224
Cost of sales	35,904	63,798
Gross margin	6,053	17,426
Operating expenses	3,912	6,660
Net income of unconsolidated joint ventures	$2,141	$10,766
Equity in net income (loss) of unconsolidated joint ventures reflected in the accompanying consolidated statements of operations	$(7)	$1,868

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 from its unconsolidated joint ventures based on each project's revenues. For the three months ended March 31, 2016 and 2015, the Company earned $2.2 million and $3.0 million, respectively, in management fees, which have been recorded as fee building revenues in the accompanying condensed consolidated statements of operations.

In January 2016, we acquired the remaining outside equity interest of our San Juan (Oliva) joint venture by paying $20.6 million to our joint venture partner. Upon the change of control, we were 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 March 31, 2016.

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6. Other Assets

Other assets consist of the following:

	March 31, 2016	December 31, 2015
	(Dollars in thousands)	
Deferred tax asset	$7,543	$ 7,516
Property and equipment, net of accumulated depreciation	978	929
Prepaid income taxes	1,339	—
Prepaid expenses	1,394	1,127
Other assets	12	15
	$11,266	$ 9,587

7. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

	March 31, 2016	December 31, 2015
	(Dollars in thousands)	
Warranty accrual	$4,389	$ 4,181
Accrued compensation and benefits	2,367	5,106
Accrued interest	519	453
Completion reserve	444	1,168
Income taxes payable	—	6,780
Deferred profit from unconsolidated joint ventures	1,291	1,603
Other accrued expenses	258	536
	$9,268	$ 19,827

Completion reserves relate to liabilities for completed subcontractor work on closed homes for which invoices have not been remitted as of the balance sheet date.

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

	Three Months Ended March 31,	
	2016	2015
	(Dollars in thousands)	
Beginning warranty accrual for homebuilding projects	$3,846	$1,277
Warranty provision for homebuilding projects	312	562
Warranty payments for homebuilding projects	(101)	(60)
Ending warranty accrual for homebuilding projects	4,057	1,779
Beginning warranty accrual for fee building projects	335	301
Warranty provision for fee building projects	—	—
Warranty efforts for fee building projects	(3)	(1)
Ending warranty accrual for fee building projects	332	300
Total ending warranty accrual	$4,389	$2,079

8. Unsecured Revolving Credit Facility and Other Notes Payable

Notes payable consisted of the following:

	March 31, 2016	December 31, 2015
	(Dollars in thousands)	
Senior unsecured revolving credit facility	$189,924	$ 74,924
Note payable with land seller	4,000	6,000
Construction loans	810	2,158
	$194,734	$ 83,082

The Company has a senior unsecured revolving credit facility (the “Credit Facility”) with a bank group. As of March 31, 2016, the total commitment under the Credit Facility was $200 million, of which $189.9 million was outstanding and $10.1 million was available. The maturity date under the Credit Facility is April 30, 2018 and has the potential for a one-year extension, subject to specified conditions and the payment of an extension fee. The Company may repay advances under the Credit Facility at any time without premium or penalty. 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. The Company may incur costs associated with unused commitment fees pursuant to the terms of the Credit Facility. No such costs were accrued and payable as of March 31, 2016 and 2015.
As of March 31, 2016, the interest rate under the Credit Facility was 3.19%. 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) leverage ratios; (iii) a minimum liquidity covenant; and (iv) a minimum fixed charge coverage ratio based on EBITDA to interest incurred. As of March 31, 2016, the Company was in compliance with all financial covenants.
In 2012, the Company entered into a $9.5 million term loan with a land seller, secured by real estate, which bears interest at 7.0% per annum. During 2015, we made principal payments of $3.5 million. During February 2016, we

made a principal payment of $2.0 million and extended the maturity date of the note. The note matures on the earlier of (i) 10 days following entitlement approval, or (ii) December 15, 2016. Interest is payable monthly and the remaining principal is due at maturity.

In May 2014, the Company entered into two construction loans with a bank related to model and production homes for a project. The loans are secured by the real estate related to the project and bear interest at the bank's prime rate plus 2.0%, or 5.50% at March 31, 2016. The total commitment under the construction loans is $0.8 million. As of March 31, 2016, the remaining loan balance is related to one home in backlog and is expected to close during the 2016 second quarter, at which time the remaining balance of the construction loans is expected to be paid in full and the commitments closed.

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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 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 accompanying consolidated balance sheets include the following financial instruments: cash and cash equivalents, restricted cash, contracts and accounts receivable, due from affiliates, accounts payable, accrued expenses and other liabilities, due to affiliates and notes payable.

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 and due to affiliates is not determinable due to the related party nature of such amounts. As of March 31, 2016 and December 31, 2015, the fair value of the Company's notes payable approximated the carrying value. The Company has determined that its notes payable are classified as Level 3 within the fair value hierarchy. Estimated fair values of the outstanding other notes payable at March 31, 2016 and December 31, 2015 were based on cash flow models discounted at market interest rates that considered underlying risks of the debt.

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. During the three months ended March 31, 2016 and 2015, the Company did not record any fair value adjustments to those nonfinancial assets and liabilities remeasured at fair value on a nonrecurring basis.

10. Commitments and Contingencies

The Company is a defendant in various lawsuits related to its normal course of business. We are also subject to local, state and federal laws and regulations related to land development activities, house construction standards, sales practices, employment practices and environmental protection. As a result, we are subject to periodic examinations or inquiry by agencies administering these laws and regulations.

We record a reserve for potential legal claims and regulatory matters when they are probable of occurring and a potential loss is reasonably estimable. We accrue for these matters based on facts and circumstances specific to each matter and revise these estimates when necessary.

In view of the inherent difficulty of predicting outcomes of legal claims and related contingencies, we generally cannot predict their ultimate resolution, related timing or eventual loss. If our evaluations indicate loss contingencies that could be material are not probable, but are reasonably possible, we will disclose their nature with an estimate of possible range of losses or a statement that such loss is not reasonably estimable. As of March 31, 2016 and December 31, 2015, the Company did not have any accruals for asserted or unasserted matters.

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 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.

We obtain surety bonds in the normal course of business to ensure completion of certain infrastructure improvements of our projects. As of March 31, 2016 and December 31, 2015, the Company had outstanding surety bonds totaling \$43.9 million and \$33.6 million, respectively. The estimated remaining costs to complete such improvements as of March 31, 2016 and

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December 31, 2015 were $17.3 million and $17.0 million, respectively. The beneficiaries of the bonds are various municipalities and other organizations. In the unlikely 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 March 31, 2016, the Company and its affiliated joint ventures had $3.6 million in outstanding letters of credit issued under this facility.

11. Related Party Transactions

During the three months ended March 31, 2016 and 2015, the Company incurred construction-related costs on behalf of its unconsolidated joint ventures totaling $2.7 million and $2.8 million, respectively. As of March 31, 2016 and December 31, 2015, $0.3 million and $0.3 million, respectively, are included in due from affiliates in the accompanying condensed consolidated balance sheets.

The Company has entered into Management Agreements with its unconsolidated joint ventures to provide management services related to the underlying projects. Pursuant to the Management Agreements, the Company receives a management fee based on each project’s revenues. During the three months ended March 31, 2016 and 2015, the Company earned $2.2 million and $3.0 million, respectively, in management fees, which have been recorded as fee building revenue in the accompanying condensed consolidated statements of operations. As of March 31, 2016 and December 31, 2015, $0.6 million and $0.7 million, respectively, of management fees are included in due from affiliates in the accompanying condensed consolidated balance sheets.

The Company has provided credit enhancements in connection with joint venture borrowings in the form of LTV maintenance agreements in order to secure performance under the loans and maintain 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. The loans underlying the agreements comprise acquisition and development loans, construction revolvers and model 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 March 31, 2016 and December 31, 2015, $68.3 million and $74.1 million, respectively, was outstanding under the loans and 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 14.1% and 30.3%, respectively, as of March 31, 2016 and December 31, 2015. In addition, the Company has provided completion guaranties regarding specific performance for certain projects whereby the Company is required to complete the given project with funds provided by the beneficiary of the guaranty. 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 liabilities funded under such completion guaranties to its partners.

One member of the Company's board of directors beneficially owns more than 10% of the Company's outstanding common stock and is also affiliated with an entity that has investments in two of the Company's unconsolidated joint ventures. As of March 31, 2016, the Company's investment in the two unconsolidated joint ventures totaled $9.3

million.

TL Fab LP, an affiliate of Mr. Paul Heeschen, 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 months ended March 31, 2016 and 2015, the Company and its unconsolidated joint ventures incurred $0.3 million and $0.1 million, respectively, for these services. Of these costs, $0.1 million and $0.2 million was due to TL Fab LP at March 31, 2016 and December 31, 2015, respectively, and included in accounts payable in the accompanying consolidated balance sheet.

On June 26, 2015 (the “Transition Date”), 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. As of the Transition Date, Mr. Davis ceased being an employee of the Company and became an independent contractor performing consulting services. Per the agreement, Mr. Davis is expected to work approximately, but not more than, 40 consulting hours per month. For his services, he will be compensated $10,000 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. Davis' outstanding restricted stock units and stock

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option equity awards will continue to vest in accordance with their original terms. For the three months ended March 31, 2016, the Company paid Mr. Davis $30,000, excluding reimbursable expenses. Of these costs, no balance was due to Mr. Davis at March 31, 2016.

During 2015, the Company purchased lots from one of its land development unconsolidated joint ventures, TNHC-HW Cannery LLC. As a related party transaction, the Company deferred its portion of the underlying gain from the joint venture sale. The deferred gain is recorded as a reduction to the Company's land basis on the purchased lots and is recognized as the lots are delivered to third-party home buyers. As of March 31, 2016, $1.0 million remained unrecognized, being included as a reduction to land basis within the consolidated balance sheets.

The Company's land purchase agreement with TNHC-HW Cannery LLC also requires profit participation payments due to the joint venture 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. As of March 31, 2016, $0.3 million of profit participation was due to TNHC-HW Cannery LLC, which is included in due to affiliates in the accompanying consolidated balance sheets.

On November 14, 2014, The Company entered into an option agreement with one of its unconsolidated land development joint ventures, TNHC-HW Cannery LLC to purchase lots in two phases. As noted above, the Company purchased a portion of these lots during 2015 and the option on the remaining lots was assigned to a third party, The Cannery-Davis LP. On December 23, 2015, The Cannery-Davis LP purchased the optioned lots. Subsequently, the Company entered into an option and development agreement with The Cannery-Davis LP whereby The Cannery-Davis LP will develop the property into finished lots that the Company has an option to purchase in accordance with the terms and conditions of the agreement. In accordance with ASC 360-20, Property, Plant and Equipment – Real Estate Sales ("ASC 360-20"), the Company has elected to defer its portion of the underlying gain from the joint venture's sale to The Cannery-Davis LP. At March 31, 2016, $0.9 million of the gain from this transaction is included in the accompanying consolidated balance sheets as deferred profit from unconsolidated joint ventures, which is included in accrued expenses and other liabilities. As the Company purchases lots from The Cannery-Davis LP, a pro-rata share of deferred profit is recorded as a reduction to the Company's land basis of the purchased lots. The gain is ultimately recognized when the Company delivers lots to third-party home buyers. As of March 31, 2016, the Company had not purchased any of the optioned lots from The Cannery-Davis LP.

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.

12. Stock-Based Compensation

The 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. Our board of directors may terminate or amend the 2014 Incentive Plan at any time, subject to any requirement of stockholder approval required by applicable law, rule or regulation and provided that the rights of a holder of an outstanding award may not be impaired without the consent of the holder.

The number of shares of our common stock that may 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.
The Company has issued stock option and restricted stock unit awards under the 2014 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 awards typically vest over a one to three year period and expire ten years from the date of grant.
A summary of the Company’s common stock option activity as of and for the three months ended March 31, 2016 and 2015 is presented below:

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	Three Months Ended March 31, 2016			2015		
	Number of Shares	Weighted-Average Exercise Price per Share		Number of Shares	Weighted-Average Exercise Price per Share	
Outstanding Stock Option Activity						
Outstanding, beginning of period	840,298	$	11.00	846,874	$	11.00
Granted	—	$	—	—	$	—
Exercised	—	$	—	—	$	—
Forfeited	(2,112)	$	11.00	—	$	—
Outstanding, end of period	838,186	$	11.00	846,874	$	11.00
Exercisable, end of period	44,442	$	11.00	24,717	$	11.00

A summary of the Company's restricted stock unit activity as of and for the three months ended March 31, 2016 and 2015 is presented below:

	Three Months Ended March 31, 2016			2015		
	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	308,386	$	14.20	112,233	$	11.36
Granted	409,509	$	10.05	112,651	$	14.22
Vested	(226,516)	$	14.15	(85,386)	$	11.48
Forfeited	(3,980)	$	13.68	(384)	$	11.00
Outstanding, end of period	487,399	$	10.74	139,114	$	13.61

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

	Three Months Ended March 31, 2016	2015
	(Dollars in thousands)	
Expense related to:		
Stock options	262	305
Restricted stock units	723	197
	$985	$502

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 March 31, 2016, the amount of unearned stock-based compensation currently estimated to be expensed through 2019 related to unvested common stock options and restricted stock units is $5.9 million, net of estimated forfeitures. The weighted-average period over which the unearned stock-based compensation is expected to be recognized is 2.2 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.

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13. Income Taxes

The Company accounts for income taxes in accordance with ASC 740, which requires an asset and liability approach for measuring deferred taxes based on temporary differences between the financial statements and tax bases of assets and liabilities existing at each balance sheet date using enacted tax rates for the years in which taxes are expected to be paid or recovered.

For the three months ended March 31, 2016 and 2015, the Company recorded a benefit from income taxes of $0.2 million and a provision for income taxes of $2.9 million, respectively. The effective tax rate for the three months ended March 31, 2016 and 2015 differs from the 35% statutory tax rate, primarily due to stock compensation shortfalls in excess of available additional paid-in capital (“APIC”) pools during the 2016 first quarter, and the tax benefit of production activities, partially offset by state income taxes during the 2016 and 2015 first quarters.

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

14. Segment Information

The Company’s operations are organized into two reportable segments: homebuilding and fee building. In accordance with ASC 280, 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.

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 March 31,	
	2016	2015
	(Dollars in thousands)	
Revenues:		
Homebuilding	$42,303	$56,235
Fee building, including management fees	42,937	46,630
Total	$85,240	$102,865
Income (loss) before income taxes:		
Homebuilding	$(3,134)	$4,577
Fee building, including management fees	2,023	2,853
Total	$(1,111)	$7,430

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	March 31, 2016	December 31, 2015
	(Dollars in thousands)	
Assets:		
Homebuilding	$442,607	$331,697
Fee building	15,121	19,573
Total	$457,728	$351,270

15. Supplemental Disclosure of Cash Flow Information

The following table presents certain supplemental cash flow information:

	Three months ended March 31, 2016	2015
	(Dollars in Thousands)	
Supplemental disclosures of cash flow information		
Interest paid, net of amounts capitalized	$—	$—
Income taxes paid	$8,000	$5,850
Supplemental disclosures of non-cash transactions		
Purchase of real estate with notes payable to affiliate	$—	$747
Contribution of real estate from noncontrolling interest in subsidiary	$—	$601
Assets assumed from unconsolidated joint venture	$46,675	$—
Liabilities and equity assumed from unconsolidated joint venture	$46,675	$—

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, as amended. 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 large 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, 2015. 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:

- economic changes either nationally or in the markets in which we operate, including declines in employment, volatility of mortgage interest rates and inflation;
- a downturn in the homebuilding industry;
- volatility and uncertainty in the credit markets and broader financial markets;
- our business and investment strategy;
- availability of land to acquire and our ability to acquire such land on favorable terms or at all;
- availability, terms and deployment of capital;
- shortages of or increased prices for labor, land or raw materials used in housing construction;
- delays in land development or home construction resulting from adverse weather conditions or other events outside our control;
- issues concerning our joint venture partnerships;
- the cost and availability of insurance and surety bonds;
- changes in, or the failure or inability to comply with, governmental laws and regulations;
- the timing of receipt of regulatory approvals and the opening of projects;
- the degree and nature of our competition;
- our leverage and debt service obligations;
- the impact of recent accounting standards;
- restrictive covenants relating to our operations in our current or future financing arrangements; and
- availability of qualified personnel and our ability to retain our key personnel.

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.

Consolidated Financial Data

	Three Months Ended March 31,	
	2016	2015
	(Dollars in thousands)	
Revenues:		
Home sales	$42,303	$56,235
Fee building, including management fees from unconsolidated joint ventures of $2,175 and $2,968, respectively	42,937	46,630
	85,240	102,865
Expenses:		
Cost of homes sales	36,670	47,408
Cost of fee building	40,914	43,777
Selling and marketing	3,476	2,150
General and administrative	5,175	3,660
	86,235	96,995
Equity in net income (loss) of unconsolidated joint ventures	(7)	1,868
Other expense, net	(109)	(308)
Income (loss) before income taxes	(1,111)	7,430
Benefit (provision) for income taxes	242	(2,885)
Net income (loss)	(869)	4,545
Net loss attributable to noncontrolling interest	55	24
Net income (loss) attributable to The New Home Company Inc.	$(814)	$4,569

Overview

The Company continued to lay the foundation for its long-term growth prospects by increasing its wholly owned business platform. As of the end of the first quarter of 2016, we increased our wholly owned community count by 150% and the dollar value of homes in backlog by 183% to $234 million, as compared to the prior year period. In addition, we deployed newly raised capital from our December 2015 follow-on equity offering and the increase in our unsecured credit facility by investing over $85 million in land and land deposits during the quarter.

Total revenues for the 2016 first quarter were $85.2 million, compared to $102.9 million in the prior year period. Net loss attributable to the Company was $0.8 million, or ($0.04) per diluted share, compared to net income of $4.6 million, or $0.28 per diluted share, in the year earlier period. The change in net income was primarily due to anticipated decreases in home sales revenue and homebuilding gross margin due to a shift in mix, a $1.9 million reduction