

New Home Co Inc.
Form 10-Q
May 03, 2019

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 March 31, 2019 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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	NWHM	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	<input type="checkbox"/> Accelerated filer	<input checked="" type="checkbox"/> Non-accelerated filer	<input type="checkbox"/> Smaller reporting company	<input checked="" type="checkbox"/> Emerging growth company	<input checked="" type="checkbox"/>
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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 April 30, 2019: 20,049,113

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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)

	March 31, 2019 (Unaudited)	December 31, 2018
Assets		
Cash and cash equivalents	\$ 41,874	\$42,273
Restricted cash	116	269
Contracts and accounts receivable	16,459	18,265
Due from affiliates	681	1,218
Real estate inventories	563,112	566,290
Investment in and advances to unconsolidated joint ventures	33,032	34,330
Other assets	35,366	33,452
Total assets	\$ 690,640	\$ 696,097
Liabilities and equity		
Accounts payable	\$ 20,638	\$ 39,391
Accrued expenses and other liabilities	33,332	29,028
Unsecured revolving credit facility	84,000	67,500
Senior notes, net	315,591	320,148
Total liabilities	453,561	456,067
Commitments and contingencies (Note 11)		
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, 20,049,113 and 20,058,904, shares issued and outstanding as of March 31, 2019 and December 31, 2018, respectively	200	201
Additional paid-in capital	192,169	193,132
Retained earnings	44,634	46,621
Total stockholders' equity	237,003	239,954
Non-controlling interest in subsidiary	76	76
Total equity	237,079	240,030
Total liabilities and equity	\$ 690,640	\$ 696,097

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 March 31,	
	2019	2018
Revenues:		
Home sales	\$99,186	\$ 79,437
Fee building, including management fees from unconsolidated joint ventures of \$543 and \$980, respectively	19,662	43,794
	118,848	123,231
Cost of Sales:		
Home sales	86,569	69,694
Fee building	19,268	42,699
	105,837	112,393
Gross Margin:		
Home sales	12,617	9,743
Fee building	394	1,095
	13,011	10,838
Selling and marketing expenses	(8,679)	(6,639)
General and administrative expenses	(7,391)	(6,019)
Equity in net income of unconsolidated joint ventures	184	335
Gain on early extinguishment of debt	417	—
Other income (expense), net	(193)	(26)
Pretax loss	(2,651)	(1,511)
Benefit for income taxes	664	860
Net loss	(1,987)	(651)
Net loss attributable to non-controlling interest	—	11
Net loss attributable to The New Home Company Inc.	\$(1,987)	\$(640)
Loss per share attributable to The New Home Company Inc.:		
Basic	\$(0.10)	\$(0.03)
Diluted	\$(0.10)	\$(0.03)
Weighted average shares outstanding:		
Basic	19,986,394	20,924,753
Diluted	19,986,394	20,924,753
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 Three Months Ended March 31							Total
	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity	Non-controlling Interest in Subsidiary		Equity
Balance at December 31, 2017	20,876,837	\$ 209	\$ 199,474	\$ 64,307	\$ 263,990	\$ 90		\$ 264,080
Adoption of ASC 606	—	—	—	(3,365)	(3,365)	—		(3,365)
Net loss	—	—	—	(640)	(640)	(11)		(651)
Stock-based compensation expense	—	—	842	—	842	—		842
Shares net settled with the Company to satisfy employee personal income tax liabilities resulting from share based compensation plans	(83,816)	—	(954)	—	(954)	—		(954)
Shares issued through stock plans	214,881	1	(1)	—	—	—		—
Balance at March 31, 2018	21,007,902	\$ 210	\$ 199,361	\$ 60,302	\$ 259,873	\$ 79		\$ 259,952
Balance at December 31, 2018	20,058,904	\$ 201	\$ 193,132	\$ 46,621	\$ 239,954	\$ 76		\$ 240,030
Net loss	—	—	—	(1,987)	(1,987)	—		(1,987)
Stock-based compensation expense	—	—	566	—	566	—		566
Shares net settled with the Company to satisfy employee personal income tax liabilities resulting from share based compensation plans	(85,420)	—	(488)	—	(488)	—		(488)
Shares issued through stock plans	229,545	1	(1)	—	—	—		—
Repurchase of common stock	(153,916)	(2)	(1,040)	—	(1,042)	—		(1,042)
Balance at March 31, 2019	20,049,113	\$ 200	\$ 192,169	\$ 44,634	\$ 237,003	\$ 76		\$ 237,079

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)

	Three Months Ended March 31,	
	2019	2018
Operating activities:		
Net loss	\$(1,987)	\$(651)
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred taxes	—	(1,481)
Amortization of stock-based compensation	566	842
Distributions of earnings from unconsolidated joint ventures	260	715
Abandoned project costs	5	35
Equity in net income of unconsolidated joint ventures	(184)	(335)
Deferred profit from unconsolidated joint ventures	—	136
Depreciation and amortization	2,656	1,022
Gain on early extinguishment of debt	(417)	—
Net changes in operating assets and liabilities:		
Contracts and accounts receivable	1,806	5,824
Due from affiliates	524	485
Real estate inventories	9,676	(37,529)
Other assets	(2,343)	87
Accounts payable	(18,753)	9,867
Accrued expenses and other liabilities	(4,041)	(8,459)
Net cash used in operating activities	(12,232)	(29,442)
Investing activities:		
Purchases of property and equipment	(5)	(72)
Contributions and advances to unconsolidated joint ventures	(1,335)	(4,273)
Distributions of capital and repayment of advances from unconsolidated joint ventures	2,562	2,264
Interest collected on advances to unconsolidated joint ventures	—	129
Net cash provided by (used in) investing activities	1,222	(1,952)
Financing activities:		
Borrowings from credit facility	30,000	—
Repayments of credit facility	(13,500)	—
Repurchase of senior notes	(4,512)	—
Repurchases of common stock	(1,042)	—
Tax withholding paid on behalf of employees for stock awards	(488)	(954)
Net cash provided by (used in) financing activities	10,458	(954)
Net decrease in cash, cash equivalents and restricted cash	(552)	(32,348)
Cash, cash equivalents and restricted cash – beginning of period	42,542	123,970
Cash, cash equivalents and restricted cash – end of period	\$41,990	\$91,622

See accompanying notes to the unaudited condensed consolidated financial statements.

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.

Based on our public float at June 29, 2018, we qualify as a smaller reporting company and are subject to reduced disclosure obligations in our periodic reports and proxy statements.

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 consolidated 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 year ended December 31, 2018. The accompanying unaudited condensed consolidated 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 periods 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.

Reclassification

The Company updated its reportable segments effective for the 2019 first quarter. Please refer to Note 15 for more information. Prior year comparative data has been reclassified to align with the composition of the current year reportable segments.

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. The Company's reportable segments are Arizona homebuilding, California homebuilding, and fee building. In accordance with ASC 280, our California homebuilding reportable segment aggregates the Northern California and Southern California homebuilding operating

segments based on the similarities in long-term economic characteristics.

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 \$0.1 million and \$0.3 million as of March 31, 2019 and December 31, 2018, respectively, is held in accounts for payments of subcontractor costs incurred in connection with various fee building projects.

The table below shows the line items and amounts of cash and cash equivalents and restricted cash as reported within the Company's condensed consolidated balance sheets for each period shown that sum to the total of the same such amounts at the end of the periods shown in the accompanying condensed consolidated statements of cash flows.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Three Months Ended March 31,	
	2019	2018
	(Dollars in thousands)	
Cash and cash equivalents	\$41,874	\$91,061
Restricted cash	116	561
Total cash, cash equivalents, and restricted cash shown in the statements of cash flows	\$41,990	\$91,622

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 nonrefundable 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 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 on a quarterly 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 future undiscounted cash flows of the project are more or less than the asset's carrying value. If the estimated future undiscounted cash flows exceed the asset's carrying value, no impairment adjustment is required. However, if the estimated future undiscounted cash flows are less than the asset's carrying value then the asset is impaired. If the asset is deemed impaired, it is written down to its fair value in accordance with ASC 820, Fair Value Measurements and Disclosures ("ASC 820").

When estimating undiscounted 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, and the level of time sensitive costs (such as indirect construction, overhead and carrying 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 change over time.

If a real estate asset is deemed impaired, the impairment is calculated by determining the amount the asset's carrying value exceeds its fair value in accordance with ASC 820. We calculate the fair value of real estate inventories considering a land residual value analysis and a discounted cash flow analysis. 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. Some of the critical assumptions involved with measuring the asset's fair value include estimating future revenues, sales absorption rates,

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

development and construction costs, and other applicable project 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 three months ended March 31, 2019 and 2018, no real estate impairments 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 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. In instances where the Company purchases land from an unconsolidated joint venture, the pro rata share of interest capitalized to investment in unconsolidated joint ventures is added to the basis of the land acquired and recognized as a cost of sale upon the delivery of the related homes or land to a third-party buyer. 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

The Company recognizes revenue in accordance with ASC 606, Revenue from Contracts with Customers ("ASC 606"). Under ASC 606, we recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To do this, the Company performs the following five steps as outlined in ASC 606: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation.

Home Sales and Profit Recognition

In accordance with ASC 606, home sales revenue is recognized when our performance obligations within the underlying sales contracts are fulfilled. We consider our obligations fulfilled when closing conditions are complete, title has transferred to the homebuyer, and collection of the purchase price is reasonably assured. Sales incentives are recorded as 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 related revenue and 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 fee. The 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. For these types of contracts, the Company recognizes revenue based on the actual total costs it has incurred plus the applicable fee. In accordance with ASC 606, we apply the percentage-of-completion method, using the cost-to-cost approach, as it most accurately measures the progress of our efforts in satisfying our obligations within the fee building agreements. Under this approach, revenue is earned in proportion to total costs incurred divided by total costs expected to be incurred. In the course of providing fee building 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 revenues and cost of sales.

The Company also provides construction management and coordination services and sales and marketing services as part of agreements with third parties and its unconsolidated joint ventures. In certain contracts, the Company also provides project

THE NEW HOME COMPANY INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

management and administrative services. For most services provided, the Company fulfills its related obligations as time-based measures, according to the input method guidance described in ASC 606. Accordingly, revenue is recognized on a straight-line basis as the Company's efforts are expended evenly throughout the performance period. The Company may also have an obligation to manage the home or lot sales process as part of providing sales and marketing services. This obligation is considered fulfilled when related homes or lots close escrow, as these events represent milestones reached according to the output method guidance described in ASC 606. Accordingly, revenue is recognized in the period that the corresponding lots or homes close escrow. Costs associated with these services are recognized as incurred.

The Company's fee building revenues have historically been concentrated with a small number of customers. For the three months ended March 31, 2019 and 2018, one customer comprised 91% and 98%, respectively, of fee building revenue. The balance of the fee building revenues primarily represented management fees earned from unconsolidated joint ventures and third-party customers. As of March 31, 2019 and December 31, 2018, one customer comprised 33% and 48% 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.

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 non-controlling equity holders) lack both substantive participating rights and substantive kick-out rights, defined as follows:

Participating rights - provide the non-controlling 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 non-controlling 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 nonrefundable 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 nonrefundable deposit, a VIE may have been created.

As of March 31, 2019 and December 31, 2018, 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.

THE NEW HOME COMPANY INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Non-controlling 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 March 31, 2019 and December 31, 2018, 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 when any of the following situations exist: 1) the joint venture qualifies as a VIE and we are not the primary beneficiary, 2) we do not control the joint venture but have the ability to exercise significant influence over its operating and financial policies, or 3) we function as the managing member or general partner of the joint venture and our joint venture partner has substantive participating rights or can replace us as managing member or general partner without cause.

As of March 31, 2019, 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 ASC 230, Statement of Cash Flows ("ASC 230"). Under the cumulative earnings approach, distributions received are considered returns on investment and is classified as 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 is 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 generally consistent with those of the Company.

We review real estate inventory held by our unconsolidated joint ventures for impairment, consistent with how we review our real estate inventories as described in more detail above in the section entitled "Real Estate Inventories and Cost of Sales." We also review our investments in and advances to unconsolidated joint ventures for evidence of other-than-temporary declines in value in accordance with ASC 820. 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 months ended March 31, 2019 and 2018, no impairments related to investment in and advances to unconsolidated joint ventures were recorded.

Selling and Marketing Expense

Costs incurred for tangible assets directly used in the sales process such as our sales offices, design studios and model landscaping and furnishings are capitalized to other assets in the accompanying condensed consolidated balance sheets under ASC 340, Other Assets and Deferred Costs ("ASC 340"). These costs are depreciated to selling and marketing expenses generally over the shorter of 30 months or the actual estimated life of the selling community. All

other selling and marketing costs, such as commissions and advertising, are expensed as incurred.

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 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.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 March 31, 2019 and December 31, 2018, no allowance was recorded related to contracts and accounts receivable.

Property, Equipment and Capitalized Selling and Marketing Costs

Property, equipment and capitalized selling and marketing costs are recorded at cost and included in other assets in the accompanying condensed consolidated balance sheets. Property and equipment are depreciated to general and administrative expenses 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 to general and administrative expenses using the straight-line method generally over the shorter of either their estimated useful lives or the term of the lease. Capitalized selling and marketing costs are depreciated using the straight-line method to selling and marketing expenses over the shorter of either 30 months or the actual estimated life of the selling community.

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.

Each quarter we assess our deferred tax asset to determine whether all or any portion of the asset is more likely than not (defined as a likelihood of more than 50%) unrealizable under ASC 740. We are required to establish a valuation allowance for any portion of the tax 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 net operating losses and tax credit carryforwards and available tax planning alternatives, to the extent these items are applicable. 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. At March 31, 2019 and December 31, 2018, no valuation allowance was recorded.

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, 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. At March 31, 2019, the Company has concluded that there were no significant uncertain tax positions requiring recognition in its financial statements.

The Company classifies any interest and penalties related to income taxes assessed as part of income tax expense. As of March 31, 2019, the Company has not been assessed interest or penalties by any major tax jurisdictions related to any open tax periods.

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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 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 agreement, Mr. Stelmar's outstanding equity awards continued 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. Stelmar's consulting agreement noted above, we accounted for his share-based awards in accordance with ASC 505-50 through March 31, 2018. ASC 505-50 required that these awards be accounted for prospectively, such that the fair value of the awards was 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. Stelmar have been completed. ASC 505-50 required 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.

In June of 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-07, Improvements to Nonemployee Share-Based Payment Accounting ("ASU 2018-07") which expanded the scope of ASC 718 to include share-based payments for acquiring goods and services from nonemployees, with certain exceptions. Under ASC 718, the measurement date for equity-classified, share-based awards is generally the grant date of the award. The Company early adopted ASU 2018-07 on April 1, 2018, at which time Mr. Stelmar's award was the only nonemployee award outstanding. In accordance with the transition guidance, the Company assessed Mr. Stelmar's award for which a measurement date had not been established. The outstanding award was re-measured to fair value as of the April 1, 2018 adoption date. The adoption of ASU 2018-07 provided administrative relief by fixing the remaining unamortized expense of the award and eliminating the requirement to quarterly re-measure the Company's one remaining nonemployee award. The Company adopted this standard on a modified retrospective basis booking a cumulative-effect adjustment of an \$18,000 increase to retained earnings and equal decrease to additional paid-in capital as of the beginning of the 2018 fiscal year. Mr. Stelmar's award was fully expensed as of March 31, 2019.

Share Repurchase and Retirement

When shares are retired, the Company's policy is to allocate the excess of the repurchase price over the par value of shares acquired to both retained earnings and additional paid-in capital. The portion allocated to additional paid-in capital is determined by applying a percentage, which is determined by dividing the number of shares to be retired by the number of shares issued, to the balance of additional paid-in capital as of the retirement date. The residual, if any, is allocated to retained earnings as of the retirement date.

During the three months ended March 31, 2019, the Company repurchased and retired 153,916 shares of its common stock at an aggregate purchase price of \$1.0 million. The shares were returned to the status of authorized but unissued.

Dividends

No dividends were paid on our common stock during the three months ended March 31, 2019 and 2018. We currently intend to retain our future earnings to finance the development and expansion of our business and, therefore, do not intend to pay cash dividends on our common stock for the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, compliance with Delaware law, restrictions contained in any financing instruments, including but not limited to, our unsecured credit facility and senior notes indenture, and such other factors as our board of directors deem relevant.

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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 (the "Securities Act"), 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 February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASC 842"). ASC 842 requires organizations that lease assets (referred to as "lessees") to present lease assets and lease liabilities on the balance sheet at their gross value based on the rights and obligations created by those leases. Under ASC 842, a lessee is required to recognize assets and liabilities for leases with greater than 12 month terms. Lessor accounting remains substantially similar to prior GAAP. The Company's lease agreements impacted by ASC 842 primarily relate to our corporate headquarters, other office locations and office or construction equipment where we are the lessee and are all classified as operating leases.

The Company adopted ASC 842 on January 1, 2019 under the modified retrospective approach. Under the modified retrospective approach, the Company applied the requirements of ASC 842 to its leases as of the adoption date and recognized a \$3.1 million right-of-use asset and a related \$3.5 million liability. The comparative information has not been restated and continues to be reported as it was previously, under the appropriate accounting standards in effect for those periods. For additional information on our operating leases, please see Note 11.

For leases that commenced before the January 1, 2019 adoption date, the Company has elected the practical expedient package outlined in ASC 842-10-65-1(f) which prescribes the following:

1. An entity need not reassess whether any expired or existing contracts contain leases.

An entity need not reassess the lease classification for any expired or existing leases (for example, all existing leases that were classified as operating leases in accordance with ASC 840, Leases, will be classified as operating leases, and all existing leases that were classified as capital leases in accordance with ASC 840 will be classified as finance leases).

3. An entity need not reassess initial direct costs for any existing lease.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), which changes the impairment model for most financial assets and certain other instruments from an "incurred loss" approach to a new "expected credit loss" methodology.

The standard is effective for annual and interim periods beginning January 1, 2020, with early adoption permitted, and requires full retrospective application upon adoption. The Company is currently evaluating the impact of ASU 2016-13 and expects no material impact to its consolidated financial statements as a result of adoption.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820) - Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"). The amendments in ASU 2018-13 modify certain disclosure requirements of fair value measurements and are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2018-13 and expects no material impact to the consolidated financial statements as a result of adoption.

The SEC's Disclosure Update and Simplification rule (Release 33-10532) amends the interim financial statement requirements to require a reconciliation of changes in stockholder's equity in the notes or as a separate statement. This analysis should reconcile the beginning balance to the ending balance of each caption in stockholders' equity for each period for which an income statement is required to be filed. The Company adopted this guidance during 2018 and

presents a reconciliation of changes in stockholders' equity for the current and prior period as a separate statement.

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2. Computation of Loss Per Share

The following table sets forth the components used in the computation of basic and diluted earnings per share for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31, 2019 2018 (Dollars in thousands, except per share amounts)	
Numerator:		
Net loss attributable to The New Home Company Inc.	\$(1,987)	\$ (640)
Denominator:		
Basic weighted-average shares outstanding	19,986,392	20,924,753
Effect of dilutive shares:		
Stock options and unvested restricted stock units	—	—
Diluted weighted-average shares outstanding	19,986,392	20,924,753
Basic loss per share attributable to The New Home Company Inc.	\$(0.10)	\$ (0.03)
Diluted loss per share attributable to The New Home Company Inc.	\$(0.10)	\$ (0.03)

Antidilutive stock options and unvested restricted stock units not included in diluted earnings per share 1,451,485 1,371,973

3. Contracts and Accounts Receivable

Contracts and accounts receivable consist of the following:

	March 31, 2019 (Dollars in thousands)	December 31, 2018
Contracts receivable:		
Costs incurred on fee building projects	\$ 19,268	\$ 159,136
Estimated earnings	394	4,401
	19,662	163,537
Less: amounts collected during the period	(14,308)	(154,743)
Contracts receivable	\$ 5,354	\$ 8,794
Contracts receivable:		
Billed	\$ —	\$ —
Unbilled	5,354	8,794
	5,354	8,794
Accounts receivable:		
Escrow receivables	10,443	8,787

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Other receivables	662	684
Contracts and accounts receivable	\$16,459	\$18,265

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 invoiced. All unbilled receivables as of March 31, 2019 and December 31, 2018 are expected to be billed and collected within 30 days. Accounts payable at March 31, 2019 and

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December 31, 2018 includes \$4.3 million and \$8.5 million, respectively, related to costs incurred under the Company's fee building contracts.

4. Real Estate Inventories

Real estate inventories are summarized as follows:

	March 31, 2019	December 31, 2018
	(Dollars in thousands)	
Deposits and pre-acquisition costs	\$22,276	\$20,726
Land held and land under development	116,274	115,987
Homes completed or under construction	375,274	380,956
Model homes	49,288	48,621
	\$563,112	\$566,290

All of our deposits and pre-acquisition costs are nonrefundable, except for refundable deposits of \$0 and \$0.9 million as of March 31, 2019 and December 31, 2018, 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 include all costs associated with home construction, including land, development, indirects, permits, materials and labor (except for capitalized selling and marketing costs, which are classified in other assets).

In accordance with 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.

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5. Capitalized Interest

Interest is capitalized to inventory and investment in unconsolidated joint ventures 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, or in instances where lots are sold from the unconsolidated joint venture to the Company, the interest is added to the land basis and included in cost of sales when the related lots or homes are sold to third-party buyers. For the three months ended March 31, 2019 and 2018 interest incurred, capitalized and expensed was as follows:

	Three months ended March 31,		
	2019	2018	
	(Dollars in thousands)		
Interest incurred	\$7,761	\$6,716	
Interest capitalized to inventory	(7,761)	(6,195)	
Interest capitalized to investment in unconsolidated joint ventures	—	(521)	
Interest expensed	\$—	\$—	
Capitalized interest in beginning inventory	\$25,681	\$16,453	
Interest capitalized as a cost of inventory	7,761	6,195	
Capitalized interest transferred from investment in unconsolidated joint ventures to inventory upon lot acquisition	10	—	
Previously capitalized interest included in cost of home sales	(4,852)	(2,764)	
Capitalized interest in ending inventory	28,600	19,884	
Capitalized interest in beginning investment in unconsolidated joint ventures	\$713	\$1,472	
Interest capitalized to investment in unconsolidated joint ventures	—	521	
Capitalized interest transferred from investment in unconsolidated joint ventures to inventory upon lot acquisition	(10)	—	
Previously capitalized interest included in equity in net income of unconsolidated joint ventures	(31)	(31)	
Capitalized interest in ending investment in unconsolidated joint ventures	672	1,962	
Total capitalized interest in ending inventory and investments in unconsolidated joint ventures	\$29,272	\$21,846	
Capitalized interest as a percentage of inventory	5.1	% 4.3	%
Interest included in cost of home sales as a percentage of home sales revenue	4.9	% 3.4	%
Capitalized interest as a percentage of investment in and advances to unconsolidated joint ventures	2.0	% 3.4	%

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6. Investments in and Advances to Unconsolidated Joint Ventures

As of March 31, 2019 and December 31, 2018, the Company had ownership interests in 10 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 were as follows:

	March 31, 2019	December 31, 2018
	(Dollars in thousands)	
Cash and cash equivalents	\$32,186	\$45,945
Restricted cash	14,616	19,205
Real estate inventories	362,609	374,607
Other assets	5,329	4,231
Total assets	\$414,740	\$443,988
Accounts payable and accrued liabilities	\$37,794	\$43,158
Notes payable	61,271	71,299
Total liabilities	99,065	114,457
The New Home Company's equity	32,362	33,617
Other partners' equity	283,313	295,914
Total equity	315,675	329,531
Total liabilities and equity	\$414,740	\$443,988
Debt-to-capitalization ratio	16.3	% 17.8
Debt-to-equity ratio	19.4	% 21.6

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

	Three Months Ended March 31, 2019 2018	
	(Dollars in thousands)	
Revenues	\$42,287	\$32,013
Cost of sales and expenses	41,774	31,209
Net income of unconsolidated joint ventures	\$513	\$804
Equity in net income of unconsolidated joint ventures reflected in the accompanying condensed consolidated statements of operations	\$184	\$335

For the three months ended March 31, 2019 and 2018, the Company earned \$0.5 million and \$1.0 million respectively, in management fees from its unconsolidated joint ventures. For additional detail regarding management fees, please see Note 12 - "Related Party Transactions."

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7. Other Assets

Other assets consist of the following:

	March 31, 2019	December 31, 2018
	(Dollars in thousands)	
Property, equipment and capitalized selling and marketing costs, net ⁽¹⁾	\$ 10,602	\$ 11,738
Deferred tax asset, net	13,937	13,937
Prepaid income taxes	1,178	514
Prepaid expenses	5,985	6,348
Warranty insurance receivable	909	915
Right of use lease asset ⁽²⁾	2,755	—
	\$35,366	\$ 33,452

The Company depreciated \$2.6 million and \$0.9 million of capitalized selling and marketing costs to selling and marketing expenses during the three months ended March 31, 2019 and 2018, respectively. The Company
(1) depreciated \$0.1 million and \$0.1 million of property and equipment to general and administrative expenses during the three months ended March 31, 2019 and 2018, respectively.

In conjunction with the adoption of ASC 842 the Company established a right-of-use asset of \$3.1 million on
(2) January 1, 2019. For more information, please refer to Note 1 and Note 11.

8. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

	March 31, 2019	December 31, 2018
	(Dollars in thousands)	
Warranty accrual ⁽¹⁾	\$6,945	\$ 6,898
Accrued compensation and benefits	4,021	5,749
Accrued interest	12,543	6,497
Completion reserve	2,152	4,192
Lease liability ⁽²⁾	3,196	—
Other accrued expenses	4,475	5,692
	\$33,332	\$ 29,028

Included in the amount at March 31, 2019 and December 31, 2018 is approximately \$0.9 million of additional
(1) warranty liabilities estimated to be recovered by our insurance policies.

(2) In conjunction with the adoption of ASC 842 the Company established a \$3.5 million lease liability on January 1, 2019. For more information, please refer to Note 1 and Note 11.

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

	Three Months Ended March 31, 2019 2018 (Dollars in thousands)	
Beginning warranty accrual for homebuilding projects	\$6,681	\$6,634
Warranty provision for homebuilding projects	427	516
Warranty payments for homebuilding projects	(341)	(375)
Ending warranty accrual for homebuilding projects	6,767	6,775
Beginning warranty accrual for fee building projects	217	225
Warranty provision for fee building projects	9	—
Warranty efforts for fee building projects	(48)	(2)
Ending warranty accrual for fee building projects	178	223
Total ending warranty accrual	\$6,945	\$6,998

We maintain general liability insurance designed to protect us against a portion of our risk of loss from construction-related warranty and construction defect claims. Our warranty accrual and related estimated insurance recoveries are based on historical claim and expense data, and expected recoveries from insurance carriers are recorded based on actual insurance claims and amounts determined using our warranty accrual estimates, our insurance policy coverage limits for the applicable policy years and historical recovery rates. Because of the inherent uncertainty and variability in these assumptions, our actual insurance recoveries could differ significantly from amounts currently estimated.

9. Senior Notes and Unsecured Revolving Credit Facility

Indebtedness consisted of the following:

	March 31, 2019	December 31, 2018
	(Dollars in thousands)	
7.25% Senior Notes due 2022, net	\$315,591	\$320,148
Unsecured revolving credit facility	84,000	67,500
Total Indebtedness	\$399,591	\$387,648

The carrying amount of our Senior Notes listed above at March 31, 2019 is net of the unamortized discount of \$1.5 million, unamortized premium of \$1.2 million, and unamortized debt issuance costs of \$4.1 million, each of which are amortized and capitalized to interest costs on a straight-line basis over the respective terms of the notes which approximates the effective interest method. The carrying amount for the Senior Notes listed above at December 31, 2018, is net of the unamortized discount of \$1.7 million, unamortized premium of \$1.3 million, and unamortized debt issuance costs of \$4.5 million. Debt issuance costs for the unsecured revolving credit facility are included in other assets and amortized and capitalized to interest costs on a straight-line basis over the term of the agreement.

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 used for general corporate purposes. Net proceeds from the Additional Notes were used for working capital, land acquisition and general corporate purposes. Interest on the Existing Notes and the Additional Notes (together, the "Notes") is paid semiannually in arrears on April 1 and October 1. The Notes were exchanged in an exchange offer for Notes that are

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identical to the original Notes, except that they are registered under 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 forward 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 17 for information about the guarantees and supplemental financial statement information about our guarantor subsidiaries group and non-guarantor subsidiaries group.

During March 2019, the Company repurchased and retired \$5.0 million in face value of the Notes. The Notes were purchased at 90.25% of face value, for a cash payment of \$4.5 million. The Company recognized a \$0.4 million gain on the early extinguishment of debt, and the unamortized discount, premium and debt issuance costs associated with the retired notes totaling approximately \$70,000 were written off.

The Company's unsecured revolving credit facility ("Credit Facility") is with a bank group and matures on September 1, 2020. Total commitments under the Credit Facility are \$200 million with an accordion feature that allows the facility size thereunder to be increased up to an aggregate of \$300 million, subject to certain financial conditions, including the availability of bank commitments. As of March 31, 2019, we had \$84.0 million of 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 March 31, 2019, the interest rate under the Credit Facility was 5.49%. 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 or if this test is not met, the Company maintains unrestricted cash equal to not less than the trailing 12 month consolidated interest incurred. As of March 31, 2019, the Company was in compliance with all financial covenants.

The Credit Facility also provides a \$25 million sublimit for letters of credit, subject to conditions set forth in the agreement. As of March 31, 2019 and December 31, 2018, the Company had \$2.3 million in outstanding letters of credit issued under the Credit Facility.

10. 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

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Fair Value of Financial Instruments

The following table presents an estimated fair value of the Company's Notes and Credit Facility. The Notes are classified as Level 2 and primarily reflect estimated prices obtained from outside pricing sources. The Company's Credit Facility is classified as Level 3 within the fair value hierarchy. The Company had an outstanding balance of \$84.0 million under its Credit Facility at March 31, 2019, and the estimated fair value of the outstanding balance approximated the carrying value due to the short-term nature of LIBOR contracts.

	March 31, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars in thousands)				
7.25% Senior Notes due 2022, net ⁽¹⁾	\$315,591	\$286,000	\$320,148	\$292,500
Unsecured revolving credit facility	\$84,000	\$84,000	\$67,500	\$67,500

(1) The carrying value for the Senior Notes, as presented at March 31, 2019, is net of the unamortized discount of \$1.5 million, unamortized premium of \$1.2 million, and unamortized debt issuance costs of \$4.1 million. The carrying value for the Senior Notes, as presented at December 31, 2018, is net of the unamortized discount of \$1.7 million, unamortized premium of \$1.3 million, and unamortized debt issuance costs of \$4.5 million. The unamortized discount, unamortized premium and debt issuance costs are not factored into the estimated fair value.

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.

11. 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 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 Company's liability under such LTV maintenance agreements. 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 March 31, 2019 and December 31, 2018, \$35.2 million and \$41.3 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 \$6.3 million and \$7.3 million, respectively, as of March 31, 2019 and December 31, 2018. 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

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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 March 31, 2019 and December 31, 2018, the Company had outstanding surety bonds totaling \$54.1 million and \$50.5 million, respectively. The estimated remaining costs to complete of such improvements as of March 31, 2019 and December 31, 2018 were \$23.8 million and \$20.3 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.

The Company accounts for contracts deemed to contain a lease under ASC 842. At the inception of a lease, or if a lease is subsequently modified, we determine whether the lease is an operating or financing lease. Our lease population is fully comprised of operating leases and includes leases for certain office space and equipment for use in our operations. For all leases with an expected term that exceeds one year, right-of-use assets and lease liabilities are recorded on the condensed consolidated balance sheets. The depreciable lives of right-of-use assets are limited to the expected term which would include any renewal options we expect to exercise. The exercise of lease renewal options is generally at our discretion and we expect that in the normal course of business, leases that expire will be renewed or replaced by other leases. Our lease payments do not contain variable payments, any residual value guarantees, or material restrictive covenants. Right-of-use assets are included in other assets and lease liabilities are recorded in accrued expenses and other liabilities within our condensed consolidated balance sheets and total \$2.8 million and \$3.2 million, respectively, at March 31, 2019.

For the three months ended March 31, 2019, lease costs and cash flow information for leases with terms in excess of one year was as follows:

	Three Months Ended March 31, 2019 (dollars in thousands)
Lease cost:	
Lease costs included in general and administrative expenses	\$ 355
Lease costs included in real estate inventories	162
Lease costs included in selling and marketing expenses	17
Net lease cost ⁽¹⁾	\$ 534
Other Information:	
Lease cash flows (included in operating cash flows) ⁽¹⁾	\$ 490

(1) Does not include the cost of short-term leases with terms of less than one year which totaled approximately \$0.3 million for the three months ended March 31, 2019 or the benefit from a sublease agreement of one of our office spaces which totaled approximately \$49,000 for the three months ended March 31, 2019.

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Future minimum lease payments under our operating leases are as follows (dollars in thousands):

Remaining for 2019	\$1,449
2020	1,511
2021	384
2022	10
2023	3
Thereafter	—
Total lease payments ⁽¹⁾	\$3,357
Less: Interest ⁽²⁾	161
Present value of lease liabilities ⁽³⁾	\$3,196

(1) Lease payments include options to extend lease terms that are reasonably certain of being exercised.

Our leases do not provide a readily determinable implicit rate. Therefore, we must estimate our discount rate for (2) such leases to determine the present value of lease payments at the lease commencement date. There were no legally binding minimum lease payments for leases signed but not yet commenced at March 31, 2019.

(3) The weighted average remaining lease term and weighted average discount rate used in calculating our lease liabilities were 2.2 years and 5.2%, respectively at March 31, 2019.

12. Related Party Transactions

During the three months ended March 31, 2019 and 2018, the Company incurred construction-related costs on behalf of its unconsolidated joint ventures totaling \$1.7 million and \$2.1 million, respectively. As of March 31, 2019 and December 31, 2018, \$0.5 million and \$0.4 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 months ended March 31, 2019 and 2018, the Company earned \$0.5 million and \$1.0 million, respectively, in management fees, which have been recorded as fee building revenues in the accompanying condensed consolidated statements of operations. As of March 31, 2019 and December 31, 2018, \$0.1 million and \$0.2 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, IHP Capital Partners VI, LLC, and is also affiliated with entities that have investments in two of the Company's unconsolidated joint ventures, TNHC Meridian Investors LLC (which is an owner of another entity, TNHC Newport LLC, which entity owned our "Meridian" project) and TNHC Russell Ranch LLC ("Russell Ranch"). The Company's investment in these two joint ventures was \$7.7 million at March 31, 2019 and \$6.5 million at December 31, 2018. A former member of the Company's board of directors who served during 2018 is affiliated with entities that have investments in three of the Company's unconsolidated joint ventures, Arantine Hills Holdings LP ("Bedford"), Calabasas Village LP, and TNHC-TCN Santa Clarita, LP. As of March 31, 2019 and December 31, 2018, the Company's investment in these three unconsolidated joint ventures totaled \$11.0 million and \$12.0 million, respectively.

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 months ended March 31, 2019 and 2018, the Company incurred \$33,000 and \$65,000, respectively, for these services. For the same periods, the Company's unconsolidated joint ventures incurred \$0 and \$0.4 million, respectively, for these services. Of these costs, \$0 and \$7,000 was due to TL Fab LP from the Company at March 31, 2019 and

December 31, 2018, respectively, and \$0 and \$8,000 was due to TL Fab LP from the Company's unconsolidated joint ventures at March 31, 2019 and December 31, 2018, 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 this instance, the gain is ultimately recognized when the Company delivers lots to third-party home buyers at the time of the home closing. At March 31, 2019 and December 31, 2018, \$0.2 million and \$0.2 million,

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respectively, of deferred gain from lot transactions with the TNHC-HW Cannery LLC ("Cannery"), Bedford and Russell Ranch unconsolidated joint ventures remained unrecognized and included as a reduction to land basis in the accompanying condensed consolidated balance sheets.

The Company's land purchase agreement with the Cannery provides for reimbursement of certain fee credits. The Company was reimbursed \$0.1 million in fee credits from the Cannery during the three months ended March 31, 2018. As of March 31, 2019 and December 31, 2018, \$37,000 in fee credits was due to the Company from the Cannery, which is included in due from affiliates in the accompanying condensed 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. For his services, he is compensated \$5,000 per month. His current agreement terminates on June 26, 2019 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 March 31, 2019, 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 fee building contract pursuant to which the Company acts 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. During the three months ended March 31, 2019 and 2018, the Company billed the Davis Family Trust \$0.5 million and \$38,000, respectively, including reimbursable construction costs and the Company's contractor's fees which are included in fee building revenues in the accompanying condensed consolidated statements of operations. Contractor's fees comprised \$15,000 and \$0 of the total billings for the three months ended March 31, 2019 and 2018, respectively. The Company recorded \$0.5 million and \$38,000 for the three months ended March 31, 2019 and 2018, respectively, for the cost of this fee building revenue which are included in fee building cost of sales in the accompanying condensed consolidated statements of operations. At March 31, 2019 and December 31, 2018, the Company was due \$0.1 million and \$0.6 million, respectively, from the Davis Family Trust for construction draws, which are included in due from affiliates in the accompanying condensed consolidated balance sheets.

On February 17, 2017, 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 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 is compensated \$6,000 per month. The current term is through August 17, 2019 and may be extended upon mutual consent of the parties. Additionally, Mr. Stelmar's outstanding restricted stock unit equity award granted in 2016 continued to vest in accordance with its original terms based on his continued provision of consulting services rather than continued employment and fully vested during the 2019 first quarter. At March 31, 2019 and December 31, 2018, no fees were due to Mr. Stelmar for his consulting services.

On February 14, 2019, the Company entered into a consulting agreement that transitioned Mr. Redwitz's role from that of Chief Investment Officer to a non-employee consultant to the Company effective March 1, 2019. For his consulting services, Mr. Redwitz is compensated \$10,000 per month. The agreement terminates March 1, 2020 and may be extended upon mutual consent of the parties. At March 31, 2019, no fees were due to Mr. Redwitz for his consulting services.

At March 31, 2018, the Company had advances outstanding of approximately \$3.0 million to an unconsolidated joint venture, Encore McKinley Village LLC. The note bore interest at 10% per annum and was fully repaid during the 2018 second quarter. For the three months ended March 31, 2019 and 2018, the Company earned \$0 million and \$0.1 million, respectively, 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.

The Company entered into two transactions in each of 2018 and 2017 to purchase land from affiliates of IHP Capital Partners VI, LLC, which 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 first 2017 agreement allows the Company the option to purchase lots in Northern California in a phased takedown for a gross purchase price of \$16.1 million with profit participation and master marketing fees due to the seller as outlined in the contract. As of March 31, 2019, the Company has taken down approximately two-thirds of the lots, paid \$0.3 million in master marketing fees, and has a \$0.3 million nonrefundable deposit outstanding on the remaining lots. The second 2017 transaction allows the Company to purchase finished lots in Northern California which includes customary profit participation and is structured as an optioned takedown. The total purchase price, including the cost for the finished lot development and the option, is expected to be approximately \$56.7 million, and depends on timing of takedowns, as

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well as our obligation to pay certain fees and costs during the option maintenance period. As of March 31, 2019, the Company has made a \$8.6 million nonrefundable deposit, reimbursed the owner \$0.1 million for fees and costs, paid \$2.8 million in option payments, and had taken down approximately 8% of the lots. In 2018, the Company agreed to purchase and complete the takedown of finished lots in Northern California for a gross purchase price of \$8.0 million with additional profit participation, marketing fees and certain reimbursements due to the seller as outlined in the agreement. At March 31, 2019, the Company had paid \$0.3 million in master marketing fees and reimbursed the seller \$0.2 million in costs related to this contract. Also during 2018, the Company entered an agreement to purchase land in a master-plan community in Arizona for an estimated purchase price of \$3.8 million plus profit participation and marketing fees pursuant to contract terms. The Company has an outstanding, nonrefundable deposit of \$0.3 million related to this contract and had not taken down any lots as of March 31, 2019.

In the first quarter 2018, the Company entered into an agreement with its Bedford joint venture that is affiliated with one former member of the Company's board of directors for the option to purchase lots in phased takedowns. As of March 31, 2019, the Company has made a \$1.5 million nonrefundable deposit as consideration for this option, and a portion of the deposit will be applied to the purchase price across the phases. The gross purchase price of the land is \$10.0 million with profit participation due to seller as outlined in the contract. The Company has taken down approximately one-half of the contracted lots and \$0.9 million of the nonrefundable deposit remains outstanding. During the fourth quarter 2018, the Company entered into a second option agreement with the Bedford joint venture to purchase lots in phased takedowns. The Company made a \$1.4 million nonrefundable deposit as consideration for the option, and a portion of the deposit will be applied to the purchase price across the phases. The gross purchase price of the land is \$10.5 million with profit participation due to the seller pursuant to the agreement. At March 31, 2019, the Company had taken down approximately 42% of the optioned lots and \$0.8 million of the deposit remained outstanding.

FMR LLC beneficially owned over 10% of the Company's common stock during 2018, and an affiliate of FMR LLC ("Fidelity") provides investment management and record keeping services to the Company's 401(k) Plan. For the three months ended March 31, 2018, the Company paid Fidelity approximately \$4,000 for 401(k) Plan record keeping and investment management services. The participants in the Company's 401(k) Plan paid Fidelity approximately \$2,000 for the three months ended March 31, 2018 for record keeping and investment management services. As of March 31, 2019, FMR LLC owns less than 10% of the Company's common stock.

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. 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. For more information regarding these agreements please refer to Note 11.

Subsequent to March 31, 2019, an amendment to our TNHC Russell Ranch LLC joint venture agreement was executed. The amendment outlines the proportionate funding of certain additional capital required for the joint venture. For additional information see Part II, Item 5 of this Quarterly Report on Form 10-Q.

13. 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 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. On May 22, 2018, our shareholders approved the amended and restated 2016 Incentive Plan which increased the number of shares authorized for issuance under the plan from 800,000 to 2,100,000 shares. The amended and restated 2016 Incentive Plan will expire on April 4, 2028.

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The Company has issued stock option and restricted stock unit awards under the 2014 Incentive Plan and stock option, restricted stock unit, and performance share unit awards under the 2016 Incentive Plan. As of March 31, 2019, 58,707 shares remain available for grant under the 2014 Incentive Plan and 1,147,505 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, restricted stock unit awards, and performance share 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 three months ended March 31, 2019 and 2018 is presented below:

	Three Months Ended March 31, 2019		2018	
	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	821,470	\$ 11.00	826,498	\$ 11.00
Granted	249,283	\$ 5.76	—	\$ —
Exercised	—	\$ —	—	\$ —
Forfeited	—	\$ —	(5,028)	\$ 11.00
Outstanding, end of period	1,070,753	\$ 9.78	821,470	\$ 11.00
Exercisable, end of period	821,470	\$ 11.00	821,470	\$ 11.00

A summary of the Company's restricted stock unit activity as of and for the three months ended March 31, 2019 and 2018 is presented below:

	Three Months Ended March 31, 2019		2018	
	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	469,227	\$ 10.75	562,082	\$ 10.72
Granted	135,473	\$ 5.76	131,412	\$ 11.68
Vested	(229,545)	\$ 10.60	(214,881)	\$ 10.69
Forfeited	(46,571)	\$ 10.89	—	\$ —
Outstanding, end of period	328,584	\$ 8.78	478,613	\$ 11.00

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A summary of the Company's performance share unit activity as of and for the three months ended March 31, 2019 and 2018 is presented below:

	Three Months Ended March 31,		2018	
	2019		2018	
	Number of Shares	Weighted-Average Grant-Date Fair Value per Share	Number of Shares	Weighted-Average Grant-Date Fair Value per Share
Performance Share Unit Activity				
Outstanding, beginning of period	125,422	\$ 11.68	—	\$ —
Granted (at target)	—	\$ —	125,422	\$ 11.68
Vested	—	\$ —	—	\$ —
Forfeited	(26,882)	\$ 11.68	—	\$ —
Outstanding, end of period (at target)	98,540	\$ 11.68	125,422	\$ 11.68

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 March 31,	
	2019	2018
	(Dollars in thousands)	
Expense related to:		
Stock options	\$22	\$—
Restricted stock units and performance share units	544	842
	\$566	\$842

The following table presents details of the assumptions used to calculate the weighted-average grant date fair value of common stock options granted by the Company:

	Three Months Ended March 31,	
	2019	2018
Expected term (in years)	6.0	0
Expected volatility	39.9%	—
Risk-free interest rate	2.5%	—
Expected dividends	—	—
Weighted-average grant date fair value	\$2.43	\$0

We used the "simplified method" to establish the expected term of the common stock options granted by the Company. Our restricted stock unit awards and performance share unit awards are valued based on the closing price of our common stock on the date of grant. The number of performance share units that will vest ranges from 50%-150% of the target amount awarded based on actual cumulative earnings per share and return on equity growth from 2018-2019, subject to initial achievement of minimum thresholds. We evaluate the probability of achieving the

performance targets established under each of the outstanding performance share unit awards quarterly and estimate the number of underlying units that are probable of being issued. Compensation expense for restricted stock unit and performance share unit awards is being recognized using the straight-line method over the requisite service period, subject to cumulative catch-up adjustments required as a result of changes in the number shares probable of being issued for performance share unit awards. At March 31, 2019, the probability of achieving the performance targets associated with the outstanding performance share unit awards was estimated to be 0%. Forfeitures are recognized in compensation cost during the period that the award forfeiture occurs.

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At March 31, 2019, the amount of unearned stock-based compensation currently estimated to be expensed through 2022 is \$2.9 million. The weighted-average period over which the unearned stock-based compensation is expected to be recognized is 2.1 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.

14. Income Taxes

For the three months ended March 31, 2019, the Company recorded a benefit for income taxes of \$0.7 million. Comparatively, the Company recorded a tax benefit of \$0.9 million for the three months ended March 31, 2018. The Company's effective tax rates for the three months ended March 31, 2019 and 2018 were 25.0% and 56.9%, respectively. The effective tax rate for the three months ended March 31, 2019 differs from the federal statutory tax rates due to state income taxes, estimated deduction limitations for executive compensation and discrete items. The provision for discrete items totaled \$0.3 million for the three months ended March 31, 2019 and was primarily related to stock compensation and state income tax rate changes. The effective tax rate for the three months ended March 31, 2018 differs from the federal statutory tax rate due to state income taxes, estimated deduction limitations for executive compensation, and a \$0.4 million benefit for discrete items primarily related to energy tax credits that were extended in February 2018 for 2017 closings, and to a lesser extent, an adjustment to the Company's deferred tax asset revaluation required as a result of the federal tax rate cut effective beginning in 2018.

15. Segment Information

The Company's operations are organized into three reportable segments: two homebuilding segments (Arizona and California) 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. Our California homebuilding reportable segment aggregates the Northern California and Southern California homebuilding operating segments.

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 and to each homebuilding segment based on its respective investment in and advances to unconsolidated joint ventures and real estate inventories balances. 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 are allocated within our homebuilding reportable segments.

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.

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information relating to reportable segments was as follows:

	Three Months Ended March 31, 2019 2018 (Dollars in thousands)	
Homebuilding revenues:		
Arizona	\$ 15,854	\$—
California	83,332	79,437
Total homebuilding revenues	99,186	79,437
Fee building revenues, including management fees	19,662	43,794
Consolidated total revenues	\$ 118,848	\$ 123,231

Homebuilding pretax loss:		
Arizona	\$(478)	\$(705)
California	(2,567)	(1,901)
Total homebuilding pretax loss	(3,045)	(2,606)
Fee building pretax income, including management fees	394	1,095
Total pretax loss	\$(2,651)	\$(1,511)

	March 31, 2019	December 31, 2018
	(Dollars in thousands)	

Homebuilding assets:		
Arizona	\$ 92,343	\$ 86,205
California	552,660	551,807
Total homebuilding assets	645,003	638,012
Fee building assets	6,725	10,879
Corporate unallocated assets	38,912	47,206
Total assets	\$ 690,640	\$ 696,097

16. Supplemental Disclosure of Cash Flow Information

The following table presents certain supplemental cash flow information:

	Three Months Ended March 31, 2019 2018 (Dollars in thousands)	
Supplemental disclosures of cash flow information		
Interest paid, net of amounts capitalized	\$ —	\$ —
Income taxes paid	\$ —	\$ —

17. 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.

THE NEW HOME COMPANY INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS

	March 31, 2019				
	NWHM	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated NWHM
	(Dollars in thousands)				
Assets					
Cash and cash equivalents	\$ 18,076	\$ 23,659	\$ 139	\$ —	\$ 41,874
Restricted cash	—	116	—	—	116
Contracts and accounts receivable	10	17,447	—	(998	) 16,459
Intercompany receivables	210,665	—	—	(210,665) —
Due from affiliates	—	681	—	—	681
Real estate inventories	—	563,112	—	—	563,112
Investment in and advances to unconsolidated joint ventures	—	33,032	—	—	33,032
Investment in subsidiaries	401,754	—	—	(401,754) —
Other assets	20,175	15,194	—	(3	) 35,366
Total assets	\$ 650,680	\$ 653,241	\$ 139	\$ (613,420	) \$ 690,640
Liabilities and equity					
Accounts payable	\$ 264	\$ 20,370	\$ 4	\$ —	\$ 20,638
Accrued expenses and other liabilities	13,822	20,444	59	(993	) 33,332
Intercompany payables	—	210,665	—	(210,665) —
Due to affiliates	—	8	—	(8) —
Unsecured revolving credit facility	84,000	—	—	—	84,000
Senior notes, net	315,591	—	—	—	315,591
Total liabilities	413,677	251,487	63	(211,666	) 453,561
Stockholders' equity	237,003	401,754	—	(401,754	) 237,003
Non-controlling interest in subsidiary	—	—	76	—	76
Total equity	237,003	401,754	76	(401,754	) 237,079
Total liabilities and equity	\$ 650,680	\$ 653,241	\$ 139	\$ (613,420	) \$ 690,640

THE NEW HOME COMPANY INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2018				
	NWHM	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated NWHM
	(Dollars in thousands)				
Assets					
Cash and cash equivalents	\$28,877	\$ 13,249	\$ 147	\$ —	\$ 42,273
Restricted cash	—	269	—	—	269
Contracts and accounts receivable	7	18,926	—	(668	) 18,265
Intercompany receivables	192,341	—	—	(192,341) —
Due from affiliates	—	1,218	—	—	1,218
Real estate inventories	—	566,290	—	—	566,290
Investment in and advances to unconsolidated joint ventures	—	34,330	—	—	34,330
Investment in subsidiaries	396,466	—	—	(396,466) —
Other assets	18,643	14,812	—	(3	) 33,452
Total assets	\$636,334	\$ 649,094	\$ 147	\$ (589,478	) \$ 696,097
Liabilities and equity					
Accounts payable	\$240	\$ 39,151	\$ —	\$ —	\$ 39,391
Accrued expenses and other liabilities	8,492	21,129	71	(664	) 29,028
Intercompany payables	—	192,341	—	(192,341) —
Due to affiliates	—	7	—	(7) —
Unsecured revolving credit facility	67,500	—	—	—	67,500
Senior notes, net	320,148	—	—	—	320,148
Total liabilities	396,380	252,628	71	(193,012	) 456,067
Stockholders' equity	239,954	396,466	—	(396,466	) 239,954
Non-controlling interest in subsidiary	—	—	76	—	76
Total equity	239,954	396,466	\$ 76	(396,466	) 240,030
Total liabilities and equity	\$636,334	\$ 649,094	\$ 147	\$ (589,478	) \$ 696,097

THE NEW HOME COMPANY INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

	Three Months Ended March 31, 2019				
	Guarantor NWHM Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments		Consolidated NWHM
	(Dollars in thousands)				
Revenues:					
Home sales	\$—\$ 99,186	\$	—\$	—	\$ 99,186
Fee building	— 19,662	—	—		19,662
	— 118,848	—	—		118,848
Cost of Sales:					
Home sales	— 86,569	—	—		86,569
Fee building	— 19,268	—	—		19,268
	— 105,837	—	—		105,837
Gross Margin:					
Home sales	— 12,617	—	—		12,617
Fee building	— 394	—	—		394
	— 13,011	—	—		13,011
Selling and marketing expenses	— (8,679	) —	—		(8,679)
General and administrative expenses	(566,825	) —	—		(7,391)
Equity in net income of unconsolidated joint ventures	— 184	—	—		184
Equity in net loss of subsidiaries	(1,742	—	1,712	&#1	