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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2016

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 001-34856

THE HOWARD HUGHES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	36-4673192
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

13355 Noel Road, 22nd Floor, Dallas, Texas 75240

(Address of principal executive offices, including zip code)

(214) 741-7744

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of common stock, $0.01 par value, outstanding as of May 2, 2016 was 39,823,786.

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THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

UNAUDITED

(In thousands, except share amounts)	March 31, 2016	December 31, 2015
Assets:		
Investment in real estate:		
Master Planned Community assets	$ 1,647,947	$ 1,642,842
Land	325,412	322,462
Buildings and equipment	1,884,772	1,772,401
Less: accumulated depreciation	(252,095)	(232,969)
Developments	806,862	1,036,927
Net property and equipment	4,412,898	4,541,663
Investment in Real Estate and Other Affiliates	56,295	57,811
Net investment in real estate	4,469,193	4,599,474
Cash and cash equivalents	736,834	445,301
Accounts receivable, net	29,118	32,203
Municipal Utility District receivables, net	157,282	139,946
Notes receivable, net	25,076	1,664
Deferred expenses, net	63,532	61,804
Prepaid expenses and other assets, net	550,939	441,190
Total assets	$ 6,031,974	$ 5,721,582
Liabilities:		
Mortgages, notes and loans payable	$ 2,543,638	$ 2,443,962
Deferred tax liabilities	141,972	89,221
Warrant liabilities	277,940	307,760
Uncertain tax position liability	3,340	1,396
Accounts payable and accrued expenses	564,621	515,354
Total liabilities	3,531,511	3,357,693
Commitments and Contingencies (see Note 15)		
Equity:		
Preferred stock: $.01 par value; 50,000,000 shares authorized, none issued	—	—
Common stock: $.01 par value; 150,000,000 shares authorized, 39,832,176 shares issued and 39,823,786 outstanding as of March 31, 2016 and 39,714,838 shares issued and outstanding as of December 31, 2015	398	398
Additional paid-in capital	2,851,343	2,847,823

Accumulated deficit	(336,450)	(480,215)
Accumulated other comprehensive loss	(17,760)	(7,889)
Treasury stock, at cost, 8,390 shares as of March 31, 2016 and 0 shares as of December 31, 2015	(840)	—
Total stockholders' equity	2,496,691	2,360,117
Noncontrolling interests	3,772	3,772
Total equity	2,500,463	2,363,889
Total liabilities and equity	$ 6,031,974	$ 5,721,582

See Notes to Condensed Consolidated Financial Statements.

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THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

UNAUDITED

	Three Months Ended March 31,	
(In thousands, except per share amounts)	2016	2015
Revenues:		
Condominium rights and unit sales	$ 122,094	$ 34,857
Master Planned Community land sales	41,942	48,081
Minimum rents	41,309	35,194
Builder price participation	4,647	5,698
Tenant recoveries	10,528	9,667
Hospitality revenues	12,909	12,003
Other land revenues	3,033	3,293
Other rental and property revenues	3,204	6,297
Total revenues	239,666	155,090
Expenses and other income:		
Condominium rights and unit cost of sales	74,815	22,409
Master Planned Community cost of sales	15,688	23,896
Master Planned Community operations	9,594	9,983
Other property operating costs	15,742	18,145
Rental property real estate taxes	6,748	6,200
Rental property maintenance costs	3,132	2,744
Hospitality expenses	10,475	9,078
Provision for doubtful accounts	3,041	809
Demolition costs	472	117
Development-related marketing costs	4,531	6,243
General and administrative	20,324	18,963
Other income, net	(359)	(1,464)
Gain on sale of 80 South Street Assemblage	(140,479)	—
Depreciation and amortization	22,972	21,510
Total expenses, net of other income	46,696	138,633
Operating income	192,970	16,457
Interest income	269	136
Interest expense	(15,993)	(13,246)
Warrant liability gain (loss)	29,820	(108,810)
Equity in earnings from Real Estate and Other Affiliates	1,932	1,788
Income (loss) before taxes	208,998	(103,675)
Provision for income taxes	65,233	2,284

Net income (loss)	143,765	(105,959)
Net income attributable to noncontrolling interests	—	—
Net income (loss) attributable to common stockholders	$ 143,765	$ (105,959)
Basic income (loss) per share:	$ 3.64	$ (2.68)
Diluted income (loss) per share:	$ 2.69	$ (2.68)

See Notes to Condensed Consolidated Financial Statements.

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THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

UNAUDITED

	Three Months Ended March 31,	
(In thousands)	2016	2015
Net income (loss)	$ 143,765	$ (105,959)
Other comprehensive income (loss):		
Interest rate swaps (a)	(9,808)	512
Capitalized swap interest expense (b)	(63)	(59)
Other comprehensive income (loss)	(9,871)	453
Comprehensive income (loss)	133,894	(105,506)
Comprehensive income attributable to noncontrolling interests	—	—
Comprehensive income (loss) attributable to common stockholders	$ 133,894	$ (105,506)

(a) Amount is shown net of deferred tax benefit of $5.3 million and deferred tax expense of $0.1 million for the three months ended March 31, 2016 and 2015, respectively.
(b) Net of deferred tax benefit of $0.1 million for both the three months ended March 31, 2016 and 2015.

See Notes to Condensed Consolidated Financial Statements.

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THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

UNAUDITED

n thousands, xcept share mounts)	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Treasury stock Shares	Treasury stock Amount	Noncontrolling interests	Total equity
alance, ecember 31, 014	39,638,094	$ 396	$ 2,838,013	$ (606,934)	$ (7,712)	—	$ —	$ 3,743	$ 2,227,50
et loss		—	—	(105,959)	—	—	—	—	(105,959
referred vidend ayment on ehalf of REIT bsidiary		—	—	—	—	—	—	29	29
terest rate vaps, net of x of $61		—	—	—	512	—	—	—	512
apitalized vap interest, et of tax enefit of $31		—	—	—	(59)	—	—	—	(59)
tock plan tivity	69,241	1	1,696	(1)	—	—	—	—	1,696
alance, arch 31, 2015	39,707,335	$ 397	$ 2,839,709	$ (712,894)	$ (7,259)	—	$ —	$ 3,772	$ 2,123,72
alance, ecember 31, 015	39,714,838	$ 398	$ 2,847,823	$ (480,215)	$ (7,889)	—	$ —	$ 3,772	$ 2,363,88
et income		—	—	143,765	—	—	—	—	143,765
terest rate vaps, net of x of $5,268		—	—	—	(9,808)	—	—	—	(9,808)
apitalized vap interest, et of tax		—	—	—	(63)	—	—	—	(63)

enefit of $34 tock plan ctivity	117,338	—	3,520	—	—	—	—	—	3,520
reasury stock ctivity		—	—	—	—	(8,390)	(840)	—	(840)
alance, arch 31, 2016	39,832,176	$ 398	$ 2,851,343	$ (336,450)	$ (17,760)	(8,390)	$ (840)	$ 3,772	$ 2,500,46

See Notes to Condensed Consolidated Financial Statements.

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THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

(In thousands)	Three Months Ended March 31, 2016	2015
Cash Flows from Operating Activities:		
Net income (loss)	$ 143,765	$ (105,959)
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Depreciation	19,496	17,087
Amortization	3,476	4,423
Amortization of deferred financing costs	1,685	1,569
Amortization of intangibles other than in-place leases	(186)	421
Straight-line rent amortization	(2,792)	(1,886)
Deferred income taxes	60,571	2,127
Restricted stock and stock option amortization	2,722	1,696
Gain on disposition of 80 South Street Assemblage	(140,479)	—
Warrant liability (gain) loss	(29,820)	108,810
Equity in earnings from Real Estate and Other Affiliates, net of distributions	944	1,264
Provision for doubtful accounts	3,041	809
Master Planned Community land acquisitions	(69)	(1,101)
Master Planned Community development expenditures	(34,468)	(37,343)
Master Planned Community cost of sales	15,450	21,782
Condominium development expenditures	(64,363)	(34,439)
Condominium rights and unit cost of sales	74,815	22,409
Percentage of completion revenue recognition from sale of condominium rights and unit	(122,094)	(34,857)
Net changes:		
Accounts and notes receivable	4,564	(2,880)
Prepaid expenses and other assets	3,139	(1,312)
Condominium deposits received	17,381	9,572
Deferred expenses	(578)	1,572
Accounts payable and accrued expenses	8,745	(7,735)
Condominium deposits held in escrow	(17,381)	(9,572)
Condominium deposits released from escrow	10,607	21,606
Other, net	(532)	35
Cash used in operating activities	(42,361)	(21,902)
Cash Flows from Investing Activities:		
Property and equipment expenditures	(5,855)	(2,221)

Operating property improvements	(2,670)	(1,857)
Property developments and redevelopments	(110,918)	(218,550)
Proceeds from disposition of 80 South Street Assemblage, net	378,257	—
Distributions from Real Estate and Other Affiliates	7,070	8,933
Note issued to Real Estate Affiliate	(25,000)	—
Investments in Real Estate and Other Affiliates, net	(6,498)	(436)
Change in restricted cash	4,785	1,707
Cash provided by (used in) investing activities	239,171	(212,424)
Cash Flows from Financing Activities:		
Proceeds from mortgages, notes and loans payable	98,616	137,566
Principal payments on mortgages, notes and loans payable	(1,981)	(4,923)
Deferred financing costs	(1,072)	(396)
Taxes paid on vested restricted stock	(840)	—
Cash provided by financing activities	94,723	132,247
Net change in cash and cash equivalents	291,533	(102,079)
Cash and cash equivalents at beginning of period	445,301	560,451
Cash and cash equivalents at end of period	$ 736,834	$ 458,372

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THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

	Three Months Ended March 31,	
(In thousands)	2016	2015
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 15,236	$ 10,471
Interest capitalized	13,959	11,264
Income taxes paid	181	210
Non-Cash Transactions:		
Special Improvement District bond transfers associated with land sales	32	2,114
Property developments and redevelopments	—	(3,534)
Accrued interest on construction loan borrowing	2,429	905
Capitalized stock compensation	798	—
MPC Land contributed to Real Estate Affiliates	—	15,231
Special Improvement District bond transfer to The Summit	—	(1,518)

See Notes to Condensed Consolidated Financial Statements.

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THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 1 BASIS OF PRESENTATION AND ORGANIZATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), with intercompany transactions eliminated between consolidated subsidiaries for interim financial statements and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as issued by the Securities and Exchange Commission (the "SEC"). Such condensed consolidated financial statements do not include all of the information and disclosures required by GAAP for complete financial statements. In addition, readers of this Quarterly Report on Form 10-Q ("Quarterly Report") should refer to The Howard Hughes Corporation's ("HHC" or the "Company") audited Consolidated Financial Statements which are included in the Company's Annual Report on Form 10-K (the "Annual Report") for the fiscal year ended December 31, 2015. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods have been included. Certain amounts in 2015 have been reclassified to conform to 2016 presentation. The results for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ended December 31, 2016.

Management has evaluated for disclosure or recognition all material events occurring subsequent to the date of the condensed consolidated financial statements up to the date and time this Quarterly Report was filed.

NOTE 2 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, ''Leases.'' ASU 2016-02, codified in Accounting Standards Codification ("ASC") 842, amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 will be effective beginning in the first quarter of 2019. Early adoption of ASU 2016-02 as of its issuance is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. We are currently evaluating the impact of adopting ASU 2016-02 on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, “Consolidation (Topic 810) - Amendments to the Consolidation Analysis.” The standard modifies whether: (1) fees paid to a decision maker or service provider represent a variable interest; (2) a limited partnership or similar entity has the characteristics of a variable interest entity (“VIE”) per consolidation guidance in ASC 810-10-65; and (3) a reporting entity is the primary beneficiary of a VIE. The effective date of the standard is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 for public companies. We adopted the standard as of January 1, 2016, and there was no impact on our consolidated financial statements.

In May 2014, the FASB and International Accounting Standards Board (“IASB”) issued ASU 2014-09 “Revenues from Contracts with Customers (Topic 606).” The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The effective date of this standard will be for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted after December 15, 2016. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance in the ASU. We are currently evaluating the new guidance to determine the impact on our consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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In August 2014, the FASB issued ASU 2014-15, “Presentation of Financial Statements — Going Concern: Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern.” This ASU requires management to assess an entity’s ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards as specified in the guidance. This ASU becomes effective for the annual and interim periods ending after December 15, 2016 and for annual and interim periods thereafter. We do not expect the adoption of this ASU to have an impact on our consolidated financial statements.

NOTE 3 SPONSOR AND MANAGEMENT WARRANTS

On November 9, 2010, we issued warrants to purchase shares of our common stock to certain of our sponsors (the “Sponsor Warrants”). The exercise price for the warrants of $50.00 per share and the number of shares of common stock underlying each warrant are subject to adjustment for future stock dividends, splits or reverse splits of our common stock or certain other events. The 1,916,667 of Sponsor Warrants outstanding are exercisable at any time and expire on November 9, 2017.

In November 2010 and February 2011, we entered into certain agreements (the “Management Warrants”) with David R. Weinreb, our Chief Executive Officer, Grant Herlitz, our President, and Andrew C. Richardson, our Chief Financial Officer, in each case prior to his appointment to such position to purchase shares of our common stock. The Management Warrants represent 2,862,687 underlying shares, which may be adjusted pursuant to a net settlement option, were issued pursuant to such agreements at fair value in exchange for a combined total of approximately $19.0 million in cash from such executives at the commencement of their respective employment. Mr. Weinreb and Mr. Herlitz’s warrants have exercise prices of $42.23 per share and Mr. Richardson’s warrants have an exercise price of $54.50 per share. Generally, the Management Warrants become exercisable in November 2016 and expire in February 2018.

As of March 31, 2016, the estimated $109.0 million fair value for the Sponsor Warrants representing warrants to purchase 1,916,667 shares and the estimated $168.9 million fair value for the Management Warrants representing warrants to purchase 2,862,687 shares have been recorded as liabilities because the holders of these warrants could require us to settle such warrants in cash upon a change of control. The estimated fair values for the outstanding Sponsor Warrants and Management Warrants were $123.1 million and $184.7 million, respectively, as of December 31, 2015. The fair values were estimated using an option pricing model and Level 3 inputs due to the unavailability of comparable market data, as further discussed in Note 7 – Fair Value of Financial Instruments. Decreases and increases in the fair value of the Sponsor Warrants and the Management Warrants are recognized as either warrant liability gains or losses, respectively, in the condensed consolidated statements of operations.

NOTE 4 EARNINGS PER SHARE

Basic earnings (loss) per share ("EPS") is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding. Diluted EPS is computed after adjusting the numerator and denominator of the basic EPS computation for the effects of all potentially dilutive common shares. The dilutive effect of options and nonvested stock issued under stock based compensation plans is computed using the "treasury stock" method. The dilutive effect of the Sponsor Warrants and Management Warrants is computed using the if converted method. Gains associated with the changes in the fair value of the Sponsor Warrants and Management Warrants are excluded from the numerator in computing diluted earnings per share because inclusion of such gains in the computation would be anti dilutive.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

Information related to our EPS calculations is summarized as follows:

	Three Months Ended March 31,	
(In thousands, except per share amounts)	2016	2015
Basic EPS:		
Numerator:		
Net income (loss)	$ 143,765	$ (105,959)
Net income attributable to noncontrolling interests	—	—
Net income (loss) attributable to common stockholders	$ 143,765	$ (105,959)
Denominator:		
Weighted average basic common shares outstanding	39,473	39,465
Diluted EPS:		
Numerator:		
Net income (loss) attributable to common stockholders	$ 143,765	$ (105,959)
Less: Warrant liability gain	(29,820)	—
Adjusted net income (loss) attributable to common stockholders	$ 113,945	$ (105,959)
Denominator:		
Weighted average basic common shares outstanding	39,473	39,465
Restricted stock and stock options	357	—
Warrants	2,570	—
Weighted average diluted common shares outstanding	42,400	39,465
Basic income (loss) per share:	$ 3.64	$ (2.68)
Diluted income (loss) per share:	$ 2.69	$ (2.68)

The diluted EPS computation for the three months ended March 31, 2016 excludes 392,000 stock options and 37,440 shares of restricted stock because their inclusion would have been anti-dilutive.

The diluted EPS computation for the three months ended March 31, 2015 excludes 1,027,740 stock options, 241,931 shares of restricted stock, 1,916,667 shares of common stock underlying the Sponsor Warrants and 2,862,687 shares of common stock underlying the Management Warrants because their inclusion would have been anti-dilutive.

NOTE 5 RECENT TRANSACTIONS

On March 16, 2016, we sold the 80 South Street Assemblage ("80 South Street") for net cash proceeds of $378.3 million, resulting in a pre-tax gain of $140.5 million. 80 South Street was comprised of a 42,694 square foot lot with certain air rights, providing total residential and commercial development rights of 817,784 square feet that had been acquired over the course of 2014 and 2015.

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THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 6 IMPAIRMENT

We review our real estate assets for potential impairment indicators whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. GAAP related to the impairment or disposal of long lived assets requires that if impairment indicators exist and expected undiscounted cash flows generated by the asset are less than its carrying amount, an impairment provision should be recorded to write down the carrying amount of the asset to its fair value. The impairment analysis does not consider the timing of future cash flows and whether the asset is expected to earn an above or below market rate of return.

Each investment in Real Estate and Other Affiliates is evaluated periodically for recoverability and valuation declines that are other-than-temporary. If the decrease in value of our investment in a Real Estate and Other Affiliate is deemed to be other-than-temporary, our investment in such Real Estate and Other Affiliate is reduced to its estimated fair value.

No impairment charges were recorded during the three months ended March 31, 2016 or March 31, 2015. We continually evaluate our strategic alternatives with respect to each of our properties and may revise our strategy from time to time, including our intent to hold the asset on a long-term basis or the timing of potential asset dispositions. For example, we may decide to sell property that is held for use, and the sale price may be less than the carrying amount. As a result, these changes in strategy could result in impairment charges in future periods.

NOTE 7 FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 820, Fair Value Measurement, emphasizes that fair value is a market-based measurement that should be determined on the assumptions market participants would use in pricing an asset or liability. The standard establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring assets or liabilities at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the asset or liability. Assets or liabilities with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree or judgment used in measuring fair value.

The following table presents the fair value measurement hierarchy levels required under ASC 820 for each of our assets and liabilities that are measured at fair value on a recurring basis:

	March 31, 2016				December 31, 2015			
	Fair Value Measurements Using				Fair Value Measurements Using			
(In thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:								
Cash equivalents	$ 18	$ 18	$ —	$ —	$ 18	$ 18	$ —	$ —
Liabilities:								
Warrants	277,940	—	—	277,940	307,760	—	—	307,760
Interest Rate Swaps & Caps	3,099	—	3,099	—	4,217	—	4,217	—

Cash equivalents consist of registered money market mutual funds which invest in United States treasury securities that are valued at the net asset value of the underlying shares in the funds as of the close of business at the end of each period.

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THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates derived from observable market interest rate curves. The valuation of warrants is based on an option pricing valuation model, utilizing inputs which are classified as Level 3 due to the unavailability of comparable market data. The following table presents a roll forward of the valuation of our Sponsor and Management Warrants:

(In thousands)	2016	2015
Balance as of January 1	$ 307,760	$ 366,080
Warrant liability (gain)/loss (a)	(29,820)	108,810
Balance as of March 31	$ 277,940	$ 474,890

(a) All (gains) and losses during 2016 and 2015 were unrealized. Changes in the fair value of the Sponsor and Management Warrants are recognized in net income as a warrant liability gain or loss.

The inputs to the valuation model include the fair value of stock related to the warrants, exercise price and term of the warrants, expected volatility, risk-free interest rate and dividend yield and, with respect to the Management Warrants, a discount for lack of marketability. Generally, an increase in expected volatility would increase the fair value of the liability, while a decrease in expected volatility would decrease the fair value of the liability, but the impact of the volatility on fair value diminishes as the market value of the stock increases above the strike price. As the period of restriction lapses, the marketability discount reduces to zero and increases the fair value of the warrants.

The significant unobservable inputs used in the fair value measurement of our warrants as of March 31, 2016 and December 31, 2015 are as follows:

Unobservable Inputs

	Expected Volatility (a)	Marketability Discount (b)
March 31, 2016	33.2%	8.0% - 10.0%
December 31, 2015	27.4%	10.0% - 12.0%

(a) Based on our implied equity volatility.
(b) Represents the discount rate for lack of marketability of the Management Warrants.

The estimated fair values of our financial instruments that are not measured at fair value on a recurring basis are as follows:

		March 31, 2016		December 31, 2015	
(In thousands)	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:					
Cash and cash equivalents	Level 1	$ 736,816	$ 736,816	$ 445,283	$ 445,283
Notes receivable, net (a)	Level 3	25,076	25,076	1,664	1,664
Liabilities:					
Fixed-rate debt	Level 2	$ 1,113,866	$ 1,110,712	$ 1,141,381	$ 1,137,166
Variable-rate debt	Level 2	1,441,551	1,441,551	1,314,973	1,314,973

(a) Notes receivable is shown net of an allowance of $0.7 million as of March 31, 2016 and $0.2 million as of December 31, 2015.

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THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Notes receivable are carried at net realizable value which approximates fair value. The estimated fair values are based on certain factors, such as current interest rates, terms of the note and credit worthiness of the borrower.

The fair value of fixed-rate debt in the table above, not including our Senior Notes (please refer to Note 9 – Mortgages, Notes and Loans Payable), was estimated based on a discounted future cash payment model, which includes risk premiums and a risk free rate derived from the current London Interbank Offered Rate ("LIBOR") or U.S. Treasury obligation interest rates. The discount rates reflect our judgment as to what the approximate current lending rates for loans or groups of loans with similar maturities and credit quality would be if credit markets were operating efficiently and assuming that the debt is outstanding through maturity. The fair values of our Senior Notes, included in fixed rate debt in the table above, are based upon the last trade price closest to the end of the period presented.

The carrying amounts for our variable-rate debt approximate fair value given that the interest rates are variable and adjust with current market rates for instruments with similar risks and maturities.

The carrying amounts of cash and cash equivalents and accounts receivable approximate fair value because of the short term maturity of these instruments.

NOTE 8 REAL ESTATE AND OTHER AFFILIATES

In the ordinary course of business, we enter into partnerships or joint ventures primarily for the development and operations of real estate assets that are referred to as "Real Estate Affiliates". These partnerships or joint ventures are accounted for in accordance with FASB ASC 810 Consolidation.

In accordance with ASC 810, we assess our joint ventures at inception to determine if any meet the qualifications of a VIE. We consider a partnership or joint venture a VIE if: (a) the total equity investment is not sufficient to permit the entity to finance its activities without additional subordinated financial support; (b) characteristics of a controlling financial interest are missing (either the ability to make decisions through voting or other rights, the obligation to absorb the expected losses of the entity or the right to receive the expected residual returns of the entity); or (c) the voting rights of the equity holders are not proportional to their obligations to absorb the expected losses of the entity and/or their rights to receive the expected residual returns of the entity, and substantially all of the entity's activities either involve or are conducted on behalf of an investor that has disproportionately few voting rights. Upon the occurrence of certain events outlined in ASC 810, we reassess our initial determination of whether the partnership or joint venture is a VIE.

We perform a qualitative assessment of each VIE to determine if we are the primary beneficiary, as required by ASC 810. A company has a controlling financial interest and must consolidate the VIE if it has both (i) the power to direct the activities of the VIE that most significantly impact the VIE's performance, and (2) "benefits," defined as the obligation to absorb the losses of the VIE that potentially could be significant to the VIE or the right to receive benefits from the VIE that potentially could be significant to the VIE. The variable interest model requires a reporting entity to reevaluate whether an entity is a VIE upon the occurrence of certain significant events as listed in ASC 810-10-35-4, including any event that changes the design of the entity and calls into question the entity's sufficiency of equity at risk or characteristics of a controlling financial interest (i.e. amendments to legal governing documents, returns or additions of equity, curtailments or modifications to activities in a way that impacts the equity at risk, etc.).

We account for investments in joint ventures which are not VIEs where we own a non-controlling interest and investments in joint ventures deemed to be VIEs for which we are not considered to be the primary beneficiary but have significant influence using the equity method. We use the cost method to account for investments where we do not have significant influence over the joint venture's operations and financial policies. Generally, the operating agreements with respect to

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our Real Estate Affiliates provide that assets, liabilities and funding obligations are shared in accordance with our ownership percentages.

Our investment in real estate and other affiliates that are reported on the equity and cost methods are as follows:

	Economic/Legal Ownership				Carrying Value		Share of Earnings/Dividends	
	March 31,		December 31,		March 31,	December 31,	Three Months Ended March 31,	
($ in Thousands)	2016		2015		2016	2015	2016	2015
Equity Method Investments								
Master Planned Communities:								
The Summit (a)	—	(a)	—	(a)	$ 12,052	$ 12,052	$ —	$ —
Operating Assets:								
33 Peck Slip (a)	35.00	%	—	%	5,969	—	19	—
Millennium Woodlands Phase II, LLC (b) (c)	81.43	%	81.43	%		—	13	(661)
Stewart Title	50.00	%	50.00	%	3,567	3,715	102	194
Clark County Las Vegas Stadium, LLC (c)	50.00	%	50.00	%	10,891	11,050	(159)	(117)
The Metropolitan Downtown Columbia (d)	50.00	%	50.00	%	4,156	4,872	(717)	(319)
Woodlands Sarofim	20.00	%	20.00	%	2,631	2,588	53	40
Strategic Developments:								
Circle T Ranch and Power Center	50.00	%	50.00	%	9,128	9,128	—	—
	50.00	%	50.00	%	10	10	—	539

HHMK Development (c)								
KR Holdings (a) (c)	50.00	%	50.00	%	753	689	5	365
m.flats (formerly Parcel C) (a)	50.00	%	50.00	%	106	7,070	—	—
Constellation (a) (c)	50.00	%	50.00	%	2,685	2,685	—	—
					51,948	53,859	(684)	41
Cost method investments					4,347	3,952	2,616	1,747
Investment in Real Estate and Other Affiliates					$ 56,295	$ 57,811	$ 1,932	$ 1,788

(a) See discussion below for a description of the joint venture ownership structure.
(b) Millennium Woodlands Phase II, LLC was placed into service in the third quarter 2014. The investment balance is in a deficit position, which is reported in Accounts payable and accrued expenses. We expect to recover the deficit when the property reaches stabilized occupancy.
(c) Equity method variable interest entity (“VIE”).
(d) The Metropolitan Downtown Columbia was placed into service in the first quarter 2015.

We are not the primary beneficiary of any of the VIEs listed above because we do not have the power to direct activities that most significantly impact the economic performance of such joint ventures and therefore we report our interests on the equity method. Our maximum exposure to loss as a result of these investments is limited to the aggregate carrying value of the investment as we have not provided any guarantees or otherwise made firm commitments to fund amounts on behalf of these VIEs. The aggregate carrying value of the unconsolidated VIEs was $14.0 million and $21.5 million as of March 31, 2016 and December 31, 2015, respectively, and was classified as Investment in Real Estate and Other Affiliates in the condensed consolidated balance sheets.

As of March 31, 2016 approximately $137.8 million of indebtedness was secured by the properties owned by our Real Estate and Other Affiliates of which our share was approximately $75.2 million based upon our economic ownership. All of this indebtedness is without recourse to us.

We are the primary beneficiary of one VIE which is consolidated in the financial statements. The creditors of the consolidated VIE do not have recourse to us. As of March 31, 2016, the carrying values of the assets and liabilities associated with the operations of the consolidated VIE were $21.5 million and $1.1 million, respectively. As of December 31, 2015, the carrying values of the assets and liabilities associated with the operations of the consolidated VIE were $21.5 million and $1.1 million, respectively. The assets of the VIE are restricted for use only by the particular VIE and are not available for our general operations.

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Our recent significant investments in Real Estate Affiliates and the related accounting considerations are described below.

The Summit

During the first quarter 2015, we formed DLV/HHPI Summerlin, LLC (“The Summit”) in a joint venture with Discovery Land Company (“Discovery”), and we contributed land with a book basis of $13.4 million and transferred Special Improvement District (“SID”) bonds related to such land with a carrying value of $1.3 million to the joint venture at the agreed upon capital contribution value of $125.4 million, or $226,000 per acre. Discovery is required to fund up to a maximum of $30.0 million cash as its capital contribution, and we have no further capital obligations. The gain on the contributed land will be recognized in Equity in earnings from Real Estate and Other Affiliates as the joint venture sells lots.

After receipt of our capital contribution and a 5.0% preferred return, Discovery is entitled to a 5.0% return on its capital contribution plus cash distributions by the joint venture until it has received two times its equity contribution. Any further cash distributions are shared 50/50. Discovery is the manager of the project. Development began in the second quarter 2015 with the first lot closings to begin in the second quarter 2016. Given the nature of the venture’s capital structure, our share of the venture’s income producing activities is recognized based on the Hypothetical Liquidation Book Value (“HLBV”) method.

33 Peck Slip

In January 2016, we entered into a joint venture with Grandview SHG, LLC (“Grandview”) to purchase a hotel located at 33 Peck Slip in the Seaport District of New York. We are in the process of evaluating with our partner potential development plans for the property. Our total investment in the joint venture was $6.0 million as of March 31, 2016.

We advanced a $25.0 million bridge loan maturing in May 2016 at a 5.0% interest rate to Grandview in order to expedite the acquisition. This amount is included in Notes receivable, net, on the condensed consolidated balance sheets.

m.flats (formerly Parcel C)

On October 4, 2013, we entered into a joint venture agreement with a local developer, Kettler, Inc. (“Kettler”), to construct an apartment complex with ground floor retail in downtown Columbia, Maryland. We contributed approximately five acres of land having a book value of $4.0 million to the joint venture and subsequently incurred an additional $3.1 million in capitalized development costs. Our land was valued at $23.4 million, or $53,500 per constructed unit. In January 2016, the venture closed on an $88.0 million construction loan which is non-recourse to us and bears interest at one-month LIBOR plus 2.40% with an initial maturity date of February 2020, with three, one-year extension options. At loan closing, Kettler contributed $16.1 million in cash, of which $7.3 million was distributed to us. This transaction was accounted for as a partial sale of the land for which we recognized a net profit of $0.2 million. After subsequent development spend, our net investment in this project was $0.1 million as of March 31, 2016.

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Constellation

On January 24, 2014, we entered into a joint venture with a national multi-family real estate developer, The Calida Group ("Calida"), to construct, own and operate a 124-unit gated luxury apartment development in Summerlin. With our partner, we each own 50% of the venture, and unanimous consent of the partners is required for all major decisions. This project represents the first residential development in Summerlin's 400-acre downtown. In the first quarter 2015, we contributed a 4.5-acre parcel of land with an agreed value of $3.2 million in exchange for a 50% interest in the venture. Our partner contributed $3.2 million of cash for their 50% interest, is the development manager, funded all pre-development activities, obtained construction financing in the first quarter 2015 and provided guarantees required by the lender. The project is financed by a $15.8 million construction loan which is non-recourse to us, of which $6.1 million is outstanding as of March 31, 2016. In the fourth quarter 2015, we contributed an additional $1.0 million to the joint venture to fund development costs. Upon a sale of the property, we are entitled to 50% of the proceeds up to, and 100% of the proceeds in excess of, an amount determined by applying a 7.0% capitalization rate to net operating income. The venture commenced construction in February 2015 and will complete the project in phases, with the first units expected to become available for rent by second quarter 2016.

NOTE 9 MORTGAGES, NOTES AND LOANS PAYABLE

Mortgages, notes and loans payable are summarized as follows:

(In thousands)	March 31, 2016	December 31, 2015
Fixed-rate debt:		
Collateralized mortgages, notes and loans payable	$ 1,060,664	$ 1,087,642
Special Improvement District bonds	53,202	53,739
Variable-rate debt:		
Collateralized mortgages, notes and loans payable (a)	1,441,551	1,314,973
	(11,779)	(12,392)

Deferred Financing Costs, net of accumulated amortization of $13.1 million and $12.7 million, respectively		
Total mortgages, notes and loans payable	$ 2,543,638	$ 2,443,962

(a) As more fully described below, $208.5 million and $209.5 million of variable rate debt has been swapped to a fixed rate for the term of the related debt as of March 31, 2016 and December 31, 2015, respectively.

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The following table presents our mortgages, notes, and loans payable by property:

($ In thousands)	Maturity (a)	Interest Rate			Maximum Facility Amount	Carrying Value March 31, 2016	December 31, 2015
Master Planned Communities							
Bridgeland Credit Facility	November 2022	4.60	%		$ 65,000	$ 50,284	$ 40,072
Summerlin South SID Bonds - S124	December 2019	5.95	%			159	159
Summerlin South SID Bonds - S128	December 2020	6.05	%			534	534
Summerlin South SID Bonds - S128C	December 2030	6.05	%			4,855	4,856
Summerlin South SID Bonds - S132	December 2020	6.00	%			1,645	1,676
Summerlin South SID Bonds - S151	June 2025	6.00	%			4,534	4,534
Summerlin South SID Bonds - S159	June 2035	6.00	%			9,020	9,020
Summerlin West SID Bonds - S808/S810	April 2031	6.00	%			1,026	1,047
Summerlin West SID Bonds - S812	October 2035	6.00	%			27,844	28,328
The Woodlands Master Credit Facility	August 2018	3.19	%	(b)	200,000	192,663	192,663
Master Planned Communities Total						292,564	282,889
Operating Assets							
10-60 Columbia Corporate Centers	May 2022	2.80	%	(b)(e)		80,000	80,000
70 Columbia Corporate Center	July 2019	2.69	%	(b)		20,000	20,000
Columbia Regional Building	March 2018	2.44	%	(b)	23,008	22,188	22,188

Downtown Summerlin	July 2019	2.69	%	(b)	311,800	291,950	289,804
Downtown Summerlin SID Bonds - S108	December 2016	5.95	%			235	235
Downtown Summerlin SID Bonds - S128	December 2030	6.05	%			3,350	3,350
One Hughes Landing	December 2029	4.30	%			52,000	52,000
Two Hughes Landing	December 2030	4.20	%			48,000	48,000
1725-35 Hughes Landing Boulevard	June 2019	2.09	%	(b)	143,000	101,441	89,677
Hughes Landing Hotel	October 2020	2.94	%	(b)	37,100	23,824	20,064
Hughes Landing Retail	December 2018	2.39	%	(b)	36,575	32,399	28,726
1701 Lake Robbins	April 2017	5.81	%			4,600	4,600
Millennium Waterway Apartments	June 2022	3.75	%			55,584	55,584
110 N. Wacker	October 2019	5.21	%	(d)		25,537	26,481
9303 New Trails	December 2023	4.88	%			12,647	12,734
One Lakes Edge	November 2018	2.69	%	(b)	73,525	69,047	67,517
Outlet Collection at Riverwalk	October 2018	3.19	%	(b)	64,400	56,100	56,100
3831 Technology Forest Drive	March 2026	4.50	%			22,665	22,759
The Westin at The Woodlands	August 2019	3.09	%	(b)	69,300	49,658	33,361
The Woodlands Resort & Conference Center	December 2020	3.19	%	(b)		85,000	85,000
Ward Village	September 2016	3.46	%	(b)(c)	250,000	238,716	238,716
20/25 Waterway Avenue	May 2022	4.79	%			14,056	14,112
3 Waterway Square	August 2028	3.94	%			52,000	52,000
4 Waterway Square	December 2023	4.88	%			37,037	37,293
Capital lease obligations	various	3.60	%			49	52
Operating Assets Total						1,398,083	1,360,353
Strategic Developments							
HHC 2978 Self Storage Facility	January 2022	3.04	%	(b)	6,368	—	—
HHC 242 Self Storage Facility	October 2021	3.04	%	(b)	6,658	—	—
Lakeland Village Center	May 2020	2.79	%	(b)	14,000	6,694	—
One Merriweather	February 2020	2.59	%	(b)	49,900	—	—
Three Hughes Landing	December 2019	2.79	%	(b)	65,455	28,710	23,268
Waiea and Anaha Condominiums	November 2019	7.19	%	(b)	600,000	67,340	27,817
Strategic Developments Total						102,744	51,085
Other Corporate Financing Arrangements	June 2018	3.00	%		22,700	18,553	18,794
Senior Notes	October 2021	6.88	%			750,000	750,000

Unamortized underwriting fees	(6,527)	(6,767)
Deferred Financing Costs, net of accumulated amortization of $13.1 million and $12.7 million, respectively	(11,779)	(12,392)
Total mortgages, notes, and loans payable	$ 2,543,638	$ 2,443,962

(a) Maturity date includes any extension periods that can be exercised at our option and which may be subject to customary extension terms such as minimum debt service coverage, minimum occupancy levels and other performance criteria.

(b) The interest rate presented is based on the one month LIBOR rate, which was 0.44% at March 31, 2016.

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(c) $143.0 million of the outstanding principal balance is swapped to a 3.81% fixed rate maturity. As of March 31, 2016 there is no undrawn availability on this facility. Management expects to refinance this note.
(d) The $25.5 million outstanding principal balance is swapped to a 5.21% fixed rate through maturity.
(e) $40.0 million of the outstanding principal balance is swapped to a 3.41% fixed rate through maturity.

The weighted average interest rate on our mortgages, notes and loans payable, excluding interest rate hedges, was 4.50% and 4.44% as of March 31, 2016 and December 31, 2015, respectively.

All of the mortgage debt is secured by the individual properties listed in the table above and is non-recourse to HHC, except for:

(i) $750.0 million of Senior Notes;
(ii) $311.8 million financing for the Downtown Summerlin development which has an initial maximum recourse of 35.0% of the outstanding balance, which will reduce to 15.0% upon completion of the project and achievement of a 1.15:1.0 debt service coverage ratio. The recourse further reduces to 10% upon achievement of a 1.25:1.0 debt service coverage ratio, a 90% occupancy level, and average tenant sales of at least $500.00 per net rentable square foot. As of March 31, 2016, 35% of the outstanding loan balance is recourse to HHC;
(iii) $64.4 million of construction financing for the Outlet Collection at Riverwalk with an initial maximum recourse of 50% of the outstanding balance, which will be reduced to 25.0% upon completion of the project and the achievement of an 11.0% debt yield and a minimum level of tenant sales per square foot for twelve months. As of March 31, 2016, 50% of the outstanding loan balance is recourse to HHC;
(iv) $20.4 million of Other Corporate Financing Arrangements; and
(v) $7.0 million of the 110 N. Wacker mortgage.

The Woodlands Master Credit Facility and The Woodlands Resort & Conference Center loans are recourse to the entities that directly own The Woodlands operations. Certain of our loans contain provisions which grant the lender a security interest in the operating cash flow of the property that represents the collateral for the loan. Certain mortgage notes may be prepaid, but may be subject to a prepayment penalty equal to a yield maintenance premium, defeasance, or a percentage of the loan balance. As of March 31, 2016, land, buildings and equipment and developments with a cost basis of $2.4 billion have been pledged as collateral for our mortgages, notes and loans payable.

As of March 31, 2016, we were in compliance with all of the financial covenants related to our debt agreements.

Master Planned Communities

On November 9, 2015, we refinanced $15.2 million of existing debt in connection with closing on a modification and upsize of the Bridgeland Credit Facility. The refinanced loan bears interest at three-month LIBOR plus 3.15%, with a 4.60% floor, and has an initial maturity date of November 2020 with two, one-year extension options. The proceeds are intended to provide working capital at Bridgeland for development efforts to meet the demand of homebuilders for finished lots in the community.

The Woodlands Master Credit Facility was amended and restated on July 31, 2015 to a $200.0 million maximum facility amount consisting of a $100.0 million term loan and a $100.0 million revolver (together, the "TWL Facility"). The TWL Facility bears interest at one-month LIBOR plus 2.75% and has an August 2016 initial maturity date with two, one–year extension options. The extension options require a reduction of the total commitment to $175.0 million for the first extension and semi-annual principal payments of $25.0 million during the second extension period. The TWL Facility also contains certain covenants that, among other things, require the maintenance of specified financial ratios, limit the incurrence of additional recourse indebtedness at The Woodlands, and limit distributions from The Woodlands to us based on a loan to value test. The amendment also modified certain covenants to allow for more construction loan guarantees

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by the entities that directly own The Woodlands than would otherwise have been permitted by the prior facility. As of March 31, 2016, there was $7.3 million available to be drawn based on the collateral value underlying the facility.

The Summerlin MPC uses SID bonds to finance certain common infrastructure improvements. These bonds are issued by the municipalities and are secured by the assessments on the land. The majority of proceeds from each bond issued is held in a construction escrow and disbursed to us as infrastructure projects are completed, inspected by the municipalities and approved for reimbursement. Accordingly, the SID bonds have been classified as debt, and the Summerlin MPC pays the debt service on the bonds semi annually. As Summerlin sells land, the buyers assume a proportionate share of the bond obligation at closing, and the residential sales contracts provide for the reimbursement of the principal amounts that we previously paid with respect to such proportionate share of the bond. In 2015, $54.0 million in new SID bonds were issued and $16.7 million in SID bonds were assumed by buyers in connection with 2015 and 2014 land sales.

Operating Assets

On December 30, 2015, we refinanced our construction financing for The Woodlands Resort & Conference Center with an $85.0 million mortgage. The loan bears interest at LIBOR plus 2.75% and has an initial maturity date of December 30, 2018, with two, one-year extension options.

On November 24, 2015, we refinanced a $41.2 million construction financing and closed on a new $48.0 million loan for Two Hughes Landing. The loan bears fixed interest at 4.20% and matures in December 2030.

On May 6, 2015, we closed on an $80.0 million non-recourse mortgage financing for the 10-60 Columbia Corporate Center office buildings. The loan bears interest at LIBOR plus 1.75% and has an initial maturity date of May 6, 2020, with two, one-year extension options.

On March 25, 2015, we closed on a $23.0 million non-recourse mortgage financing for 3831 Technology Forest Drive. The loan bears fixed interest at 4.50% and matures on March 24, 2026.

Strategic Developments

On February 25, 2016, we closed on a $49.9 million non-recourse construction loan for One Merriweather. The loan bears interest at one-month LIBOR plus 2.15% with an initial maturity date of February 25, 2020, with a one-year extension option. No amounts were drawn related to this loan as of March 31, 2016.

On January 27, 2016, we closed on a $6.4 million non-recourse construction loan for the HHC 2978 Self-Storage Facility, bearing interest at one-month LIBOR plus 2.60% with an initial maturity date of January 2020, with two, one-year extension options. No amounts were drawn related to this loan as of March 31, 2016.

On October 23, 2015, we closed on a $6.7 million non-recourse construction loan for the HHC 242 Self-Storage Facility, bearing interest at one-month LIBOR plus 2.60% with an initial maturity date of October 2019, with two, one-year extension options. No amounts were drawn related to this loan as of March 31, 2016.

On May 15, 2015, we closed on a $14.0 million non-recourse construction loan for Lakeland Village Center, bearing interest at one-month LIBOR plus 2.35% with an initial maturity date of May 2018, with two, one-year extension options.

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On October 2, 2013, we issued $750.0 million in aggregate principal amount of 6.875% Senior Notes due 2021 (the "Senior Notes") and received approximately $741.3 million of net cash proceeds. Interest is payable semiannually, on April 1 and October 1 of each year. At any time prior to October 1, 2016, we may redeem up to 35% of the Senior Notes at a price equal to 106.875% using the proceeds from equity offerings. We may redeem all or part of the Senior Notes at any time with a declining call premium thereafter to maturity. The Senior Notes contain customary terms and covenants for non investment grade senior notes and have no maintenance covenants.

NOTE 10 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We are exposed to interest rate risk related to our variable interest rate debt, and we manage this risk by utilizing interest rate derivatives. Our objectives in using interest rate derivatives are to add stability to interest costs by reducing our exposure to interest rate movements. To accomplish this objective, we use interest rate swaps, forward-starting swaps, and caps as part of our interest rate risk management strategy. As of March 31, 2016, we had interest rate swaps with gross notional amounts of $208.5 million and a $100.0 million interest rate cap, both of which were designated as effective cash flow hedges of interest rate risk. We also have $250.0 million gross notional amounts for forward-starting swaps that become effective December 31, 2017 to hedge a portion of anticipated future fixed-rate debt issuance.

Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company's fixed rate payments over the life of the agreements without exchange of the underlying notional amount. The three forward-starting interest rate swaps are designated as cash flow hedges of the variability of the anticipated interest rate of our long-term financing needs at our Downtown Summerlin property. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up front premium.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income (“AOCI”) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three months ended March 31, 2016 and March 31, 2015, the ineffective portion recorded in earnings was insignificant.

If the interest rate swap or forward agreements are terminated prior to their maturity, the amounts previously recorded in AOCI are recognized into earnings over the period that the hedged transaction impacts earnings. If the hedging relationship is discontinued because it is probable that the forecasted transaction will not occur according to the original strategy, any related amounts previously recorded in AOCI are recognized in earnings immediately.

Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on our variable rate debt. Over the next 12 months, we estimate that an additional $1.6 million will be reclassified to interest expense.

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The table below presents the fair value of our derivative financial instruments, which are included in accounts payable and accrued liabilities in the condensed consolidated balance sheets:

(In thousands)	March 31, 2016	December 31, 2015
Interest Rate Swaps & Caps	$ 3,099	$ 2,292
Forward Starting Swaps	16,115	1,925
Total derivatives designated as hedging instruments	$ 19,214	$ 4,217

The table below presents the effect of our derivative financial instruments on the condensed consolidated statements of operations for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,			Three Months Ended March 31,	
	2016	2015	Location of Loss	2016	2015
(In thousands) Cash Flow Hedges	Amount of Loss Recognized in OCI	Amount of Loss Recognized in OCI	Reclassified from AOCI into Earnings	Amount of Loss Reclassified from AOCI into Earnings	Amount of Loss Reclassified from AOCI into Earnings
Interest Rate Swaps & Caps	$ (879)	$ (761)	Interest Expense	$ (351)	$ (380)
Forward Starting Swaps	(9,280)	—	Interest Expense	—	—
	$ (10,159)	$ (761)		$ (351)	$ (380)

NOTE 11 INCOME TAXES

Unrecognized tax benefits pursuant to uncertain tax positions were $36.5 million as of March 31, 2016 and December 31, 2015, respectively, none of which would impact our effective tax rate.

We have significant permanent differences, primarily from warrant liability gains and losses and changes in valuation allowances that cause our effective tax rate to deviate from statutory rates. The effective tax rates, based upon actual operating results, were 31.2% for the three months ended March 31, 2016 compared to (2.2)% for the three months ended March 31, 2015. The changes in the tax rates were primarily attributable to changes in the warrant liability, valuation allowance related to our deferred tax assets, as well as other items which are permanent differences for tax purposes.

The increase in deferred tax liabilities between March 31, 2016 and December 31, 2015 is due primarily to the utilization of federal tax assets used to offset the tax gain on the sale of the 80 South Street Assemblage.

NOTE 12 STOCK BASED PLANS

Our stock based plans are described and informational disclosures are provided in the Notes to the Consolidated Financial Statements included in our Form 10-K for the year ended December 31, 2015.

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Stock Options

The following table summarizes our stock option plan:

	Stock Options	Weighted Average Exercise Price
Stock Options outstanding at December 31, 2015	1,086,040	$ 77.11
Granted	128,500	108.40
Forfeited	(6,500)	106.77
Stock Options outstanding at March 31, 2016	1,208,040	80.28

Stock option costs were $1.6 million and $0.7 million for the three months ended March 31, 2016 and 2015, respectively, of which $0.6 million and $0 were capitalized to development projects during the same periods.

Restricted Stock

The following table summarizes restricted stock activity:

	Restricted Stock	Weighted Average Grant Date Fair Value

Restricted stock outstanding at December 31, 2015	242,556	$	100.15
Granted	117,338		60.54
Vested	(20,000)		68.56
Restricted Stock outstanding at March 31, 2016	339,894		88.34

Compensation expense related to restricted stock awards was $1.7 million and $1.1 million for the three months ended March 31, 2016 and 2015, respectively, of which $0.3 million and $0 were capitalized to development projects during the same periods.

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NOTE 13 OTHER ASSETS AND LIABILITIES

Prepaid Expenses and Other Assets

The following table summarizes the significant components of prepaid expenses and other assets.

(In thousands)	March 31, 2016	December 31, 2015
Condominium receivables (a)	$ 307,464	$ 191,037
Condominium deposits	62,523	55,749
Special Improvement District receivable	72,575	72,558
In-place leases	20,245	22,139
Below-market ground leases	19,240	19,325
Above-market tenant leases	3,348	3,581
Equipment, net of accumulated depreciation of $4.3 million and $3.9 million, respectively	19,343	18,772
Security and escrow deposits	8,854	17,599
Tenant incentives and other receivables	10,117	10,480
Prepaid expenses	10,331	8,474
Federal income tax receivable	10,577	11,972
Intangibles	4,006	4,045
Uncertain tax position asset	117	112
Other	2,199	5,347
	$ 550,939	$ 441,190

(a) Of the total Condominium receivables, $249.4 million are expected to be collected in 2016 and $58.1 million are expected to be collected in 2017, consistent with anticipated closings of the respective condominium projects.

The $109.7 million net increase primarily relates to a $116.4 million increase in condominium receivables, which represents revenue recognized in excess of buyer deposits received for our Waiea and Anaha projects, and an increase in condominium deposits of $6.8 million due to deposits for sales of units. These increases were partially offset by a net $8.7 million decrease in security and escrow deposits mostly attributable to funding of our investment in 33 Peck Slip, a decrease in other of $3.1 million relating primarily to the collection of a tenant improvement reimbursement receivable and $1.7 million in other net changes.

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Accounts Payable and Accrued Expenses

The following table summarizes the significant components of accounts payable and accrued expenses.

(In thousands)	March 31, 2016	December 31, 2015
Construction payables	$ 194,052	$ 185,731
Deferred income	135,672	117,700
Condominium deposit liabilities	61,906	50,192
Accounts payable and accrued expenses	42,716	33,928
Tenant and other deposits	31,936	31,193
Accrued interest	29,535	16,504
Accrued payroll and other employee liabilities	15,603	31,271
Accrued real estate taxes	7,171	15,134
Interest rate swaps	19,214	4,217
Above-market ground leases	2,073	2,113
Other	24,743	27,371
	$ 564,621	$ 515,354

Total accounts payable and accrued expenses increased by $49.3 million. This net increase reflects a deferred income increase of $18.0 million primarily related to a bulk land sale at Summerlin, an increase of $11.7 million in condominium deposits liability, an increase of $8.8 million in accounts payable and accrued expenses, $13.0 million of increased accrued interest on the Senior Notes for which interest is paid semiannually, an increase in construction payables of $8.3 million, and an increase of $15.0 million in interest rate swaps liability primarily due to a decrease in fair value of the forward starting swaps. These increases are partially offset by a decrease of $15.7 million in accrued payroll and other employee liabilities due to payment in the first quarter 2016 of 2015 annual incentive bonus, a decrease of $8.0 million in accrued real estate taxes related to timing of payments, and $1.8 million in other immaterial decreases.

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NOTE 14 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (“AOCI”)

The following table summarizes AOCI for the period indicated:

Changes in Accumulated Other Comprehensive Income (Loss) by Component

Gains and (Losses) on Cash Flow Hedges	For the Three Months Ended
(In Thousands)	March 31, 2016
Balance as of December 31, 2015	$ (7,889)
Other comprehensive loss before reclassifications	(10,222)
Loss reclassified from accumulated other comprehensive loss to net income	351
Net current-period other comprehensive loss	(9,871)
Balance as of March 31, 2016	$ (17,760)

The following table summarizes the amounts reclassified out of AOCI for the period indicated:

	Amounts reclassified from Accumulated Other Comprehensive Income (Loss)

Accumulated Other Comprehensive Income (Loss) Components	For the Three Months Ended March 31, 2016	Affected line item in the Statement of Operations
Losses on cash flow hedges	$ 605	Interest expense
Interest rate swap contracts	(254)	Provision for income taxes
Total reclassifications for the period	$ 351	Net of tax

NOTE 15 COMMITMENTS AND CONTINGENCIES

In the normal course of business, from time to time, we are involved in legal proceedings relating to the ownership and operations of our properties. In management's opinion, the liabilities, if any, that may ultimately result from such legal actions are not expected to have a material effect on our consolidated financial position, results of operations or liquidity.

We had outstanding letters of credit and surety bonds totaling $91.6 million and $86.1 million as of March 31, 2016 and December 31, 2015, respectively. These letters of credit and bonds were issued primarily in connection with insurance requirements, special real estate assessments and construction obligations.

On June 27, 2013, the City of New York executed the amended and restated ground lease for South Street Seaport. The restated lease terms provide for annual fixed base rent of $1.2 million starting July 1, 2013 with an expiration of December 30, 2072, including our options to extend. The rent escalates at 3.0% compounded annually. On July 1, 2048 the base rent will be adjusted to the higher of the fair market value or the then base rent. In addition to the annual base rent, we are required to make annual payments of $210,000 as additional rent through the term of the lease. The additional rent escalates annually at the Consumer Price Index. Simultaneously with the execution of the lease, we executed a completion guaranty for the redevelopment of Pier 17 by 2017.

In the fourth quarter 2012, the historic area of South Street Seaport suffered damage due to flooding as a result of Superstorm Sandy. Reconstruction efforts are ongoing and the property is only partially operating. Over the last three years, we have received $47.9 million in insurance proceeds related to our claim. We recognized Other income of $0 and $0.3 million for the three months ended March 31, 2016 and 2015, respectively, related to this matter. This matter is currently being litigated with certain insurance carriers, and there can be no assurance that we will collect additional insurance proceeds.

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Please refer to Note 11 – Income Taxes for additional contingencies related to our uncertain tax positions.

NOTE 16 SEGMENTS

We have three business segments which offer different products and services. Our three segments are managed separately because each requires different operating strategies and management expertise and are reflective of management's operating philosophies and methods. In addition, our segments or assets within such segments could change in the future as development of certain properties commences or other operational or management changes occur. All operations are within the United States, and we do not distinguish or group our combined operations on a geographic basis. Our reportable segments are as follows:

· Master Planned Communities ("MPCs") – includes the development and sale of land, in large scale, long term community development projects in and around Las Vegas, Nevada; Houston, Texas; and Columbia, Maryland.

· Operating Assets – includes retail, office, hospitality and multi-family properties along with other real estate investments. These assets are currently generating revenues, and are comprised of commercial real estate properties developed or acquired by us, and properties where we believe there is an opportunity to redevelop, reposition, or sell to improve segment performance or to recycle capital.

· Strategic Developments – includes our residential condominium and commercial property projects currently under development and all other properties held for development which have no substantial operations.

The assets included in each segment as of March 31, 2016, are contained in the following chart:

Master Planned Communities

- Bridgeland
- Maryland
- Summerlin (a) (c)
- The Woodlands
- The Woodlands Hills

Operating Assets

Retail
- Columbia Regional Building
- Cottonwood Square
- Creekside Village Green (b)
- Downtown Summerlin
- Hughes Landing Retail (b)
- 1701 Lake Robbins
- Landmark Mall
- Outlet Collection at Riverwalk
- Park West
- South Street Seaport (under construction)
- Ward Village
- 20/25 Waterway Avenue
- Waterway Garage Retail

Multi-family
- Millennium Waterway Apartments
- Millennium Woodlands Phase II (c)
- One Lakes Edge (b)
- 85 South Street
- The Metropolitan Downtown Columbia (b) (c)

Hospitality
- Hughes Landing Hotel (b) (Embassy Suites)
- The Woodlands Resort & Conference Center
- The Westin at The Woodlands (d)

Office
- 10-70 Columbia Corporate Center
- Columbia Office Properties
- 1725-35 Hughes Landing Boulevard (b)
- One Hughes Landing
- Two Hughes Landing
- 2201 Lake Woodlands Drive
- 9303 New Trails
- 110 N. Wacker
- One Summerlin (b)
- 3831 Technology Forest Drive
- 3 Waterway Square
- 4 Waterway Square
- 1400 Woodloch Forest

Other
- Golf Courses at TPC Summerlin and TPC Las Vegas (participation interest)
- Kewalo Basin Harbor
- Merriweather Post Pavilion
- Stewart Title of Montgomery County, TX (c)
- Summerlin Hospital Medical Center (c)
- Summerlin Las Vegas Baseball Club (c)
- The Woodlands Parking Garages
- Woodlands Sarofim #1 (c)

Strategic Developments

Under Construction
- Ae'o
- Anaha
- Constellation (c)
- HHC 242 Self-Storage
- HHC 2978 Self-Storage
- Lakeland Village Center
- m.flats (formerly Parcel C) (c)
- One Merriweather
- Three Hughes Landing
- Waiea

Other
- Alameda Plaza
- AllenTowne
- Bridges at Mint Hill
- Century Plaza Mall
- Circle T Ranch and Power Center (c)
- Cottonwood Mall
- 80% Interest in Fashion Show Air Rights
- Gateway Towers
- Ke Kilohana
- Kendall Town Center
- Lakemoor (Volo) Land
- Maui Ranch Land
- The Outlet Collection at Elk Grove
- West Windsor

(a) The Summerlin MPC includes The Summit joint venture.

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(b) Asset was placed in service and moved from the Strategic Developments segment to the Operating Assets segment during 2015.
(c) A non-consolidated investment. Refer to Note 8 – Real Estate and Other Affiliates.
(d) Asset was placed in service and moved from the Strategic Developments segment to the Operating Assets segment during 2016.

Our segments are managed separately, therefore we use different operating measures to assess operating results and allocate resources among the segments. The one common operating measure used to assess operating results for the business segments is Real Estate Property Earnings Before Taxes (“REP EBT”), which represents the operating revenues of the properties less property operating expenses and adjustments for interest, as further described below. We believe that REP EBT provides useful information about the operating performance of all of our properties.

REP EBT, as it relates to our business, is defined as net income (loss) excluding general and administrative expenses, corporate other income, corporate interest income, corporate interest and depreciation expense, provision for income taxes, and warrant liability gain (loss). We present REP EBT because we use this measure, among others, internally to assess the core operating performance of our assets. We also present this measure because we believe certain investors use it as a measure of a company’s historical operating performance and its ability to service and incur debt. We believe that the inclusion of certain adjustments to net income (loss) to calculate REP EBT is appropriate to provide additional information to investors.

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Segment operating results are as follows:

	Three Months Ended March 31,	
(In thousands)	2016	2015
Master Planned Communities		
Land sales	$ 41,942	$ 48,081
Builder price participation	4,647	5,698
Minimum rents	143	215
Other land revenues	3,023	3,284
Total revenues	49,755	57,278
Cost of sales – land	15,688	23,896
Land sales operations	7,300	7,579
Land sales real estate and business taxes	2,294	2,404
Depreciation and amortization	83	95
Interest income	(16)	(16)
Interest expense (*)	(5,339)	(4,762)
Total expenses, net of other income	20,010	29,196
MPC EBT	29,745	28,082
Operating Assets		
Minimum rents	41,118	34,312
Tenant recoveries	10,523	9,573
Hospitality revenues	12,909	12,003
Other rental and property revenues	3,083	6,274
Total revenues	67,633	62,162
Other property operating costs	14,118	17,486
Real estate taxes	6,142	5,520
Rental property maintenance costs	3,001	2,627
Hospitality expenses	10,475	9,078
Provision for doubtful accounts	2,979	809

Demolition costs	472	117
Development-related marketing costs	1,100	2,266
Depreciation and amortization	21,201	18,762
Other income	(363)	—
Interest income	(8)	(10)
Interest expense	9,153	6,495
Equity in Earnings from Real Estate and Other Affiliates	(1,927)	(885)
Total expenses, net of other income	66,343	62,265
Operating Assets EBT	1,290	(103)
Strategic Developments		
Minimum rents	48	667
Tenant recoveries	5	94
Condominium rights and unit sales	122,094	34,857
Other land revenues	10	6
Other rental and property revenues	121	26
Total revenues	122,278	35,650
Condominium rights and unit cost of sales	74,815	22,409
Other property operating costs	1,624	659
Real estate taxes	606	680
Rental property maintenance costs	131	117
Provision for doubtful accounts	62	—
Demolition costs	—	—
Development-related marketing costs	3,431	3,977
Depreciation and amortization	659	1,016
Other expense/(income)	(244)	(333)
Interest income	(6)	—
Interest expense (*)	(1,134)	(1,807)
Equity in Earnings from Real Estate and Other Affiliates	(5)	(904)
Gain on sale of 80 South Street Assemblage	(140,479)	—
Total expenses, net of other income	(60,540)	25,814
Strategic Developments EBT	182,818	9,836
REP EBT	$ 213,853	$ 37,815

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(*) Negative interest expense amounts are due to interest capitalized in our Master Planned Communities and Strategic Developments segments related to Operating Assets segment debt and the Senior Notes.

The following reconciles REP EBT to GAAP income (loss) before taxes:

Reconciliation of REP EBT to GAAP income (loss) before taxes	Three Months Ended March 31,	
(In thousands)	2016	2015
REP EBT	$ 213,853	$ 37,815
General and administrative	(20,324)	(18,963)
Corporate interest income/(expense), net	(13,076)	(13,212)
Warrant liability gain (loss)	29,820	(108,810)
Corporate other (expense) income, net	(246)	1,132
Corporate depreciation and amortization	(1,029)	(1,637)
Income (loss) before taxes	$ 208,998	$ (103,675)

The following reconciles segment revenues to GAAP consolidated revenues:

Reconciliation of Segment Basis Revenues to GAAP Revenues	Three Months Ended March 31,	
(In thousands)	2016	2015
Master Planned Communities	$ 49,755	$ 57,278
Operating Assets	67,633	62,162
Strategic Developments	122,278	35,650
Total revenues	$ 239,666	$ 155,090

The assets by segment and the reconciliation of total segment assets to the total assets in the condensed consolidated balance sheets are summarized as follows:

(In thousands)	March 31, 2016	December 31, 2015
Master Planned Communities	$ 2,005,373	$ 2,022,524
Operating Assets	2,439,617	2,365,724
Strategic Developments	1,330,823	1,138,695
Total segment assets	5,775,813	5,526,943
Corporate and other	256,161	194,639
Total assets	$ 6,031,974	$ 5,721,582

The increase in the Operating Assets segment asset balance as of March 31, 2016 of $73.9 million compared to December 31, 2015 is primarily due to placing The Westin at The Woodlands in service and additional development costs at South Street Seaport.

The $192.1 million increase in the Strategic Developments segment asset balance as of March 31, 2016 compared to December 31, 2015 is primarily due to the net change resulting from the sale of the 80 South Street Assemblage and increased development expenditures primarily at Waiea, Anaha, Ae’o and One Merriweather, partially offset by the cost of sales and deposits utilized for construction at Waiea and Anaha and placing The Westin at The Woodlands in service in the Operating Assets segment.

Corporate and other assets as of March 31, 2016 consist primarily of cash and cash equivalents. The $61.5 million increase at March 31, 2016 compared to December 31, 2015 is primarily due to increased cash balances in the first quarter.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes included in this Quarterly Report and in the Company's Form 10-K for the year ended December 31, 2015. All references to numbered Notes are to specific notes to our Condensed Consolidated Financial Statements included in this Quarterly Report.

Forward-looking information

We may make forward-looking statements in this Quarterly Report and in other reports that we file with the SEC. In addition, our management may make forward-looking statements orally to analysts, investors, creditors, the media and others.

Forward-looking statements include:

- projections and expectations regarding our revenues, operating income, net income, earnings per share, REP EBT, Net Operating Income ("NOI"), capital expenditures, income tax, other contingent liabilities, dividends, leverage, capital structure or other financial items;
- forecasts of our future economic performance; and
- descriptions of assumptions underlying or relating to any of the foregoing.

In this Quarterly Report, we make forward-looking statements discussing our expectations about:

- capital required for our operations and development opportunities for the properties in our Operating Assets and Strategic Developments segments;
- expected performance of our Master Planned Communities segment and other current income producing properties; and
- future liquidity, development opportunities, development spending and management plans.

Forward-looking statements give our current expectations relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to current or historical facts. These statements may include words such as "anticipate," "believe," "estimate," "expect," "forecast," "intend," "likely," "may," "plan," "project," "realize," "should," "transform," "would," and o similar expression. Forward-looking statements should not be relied upon. They give our expectations about the future and are not guarantees.

There are several factors, many beyond our control, which could cause results to differ materially from our expectations. These risk factors are described in our Annual Report on Form 10-K for the year ended December 31, 2015 (the “Annual Report”) and are incorporated herein by reference. Any factor could, by itself, or together with one or more other factors, adversely affect our business, results of operations or financial condition. There may be other factors that we have not described in this Quarterly Report or in our Annual Report that could cause results to differ from our expectations. These forward-looking statements present our estimates and assumptions as of the date of this Quarterly Report. Except as may be required by law, we undertake no obligation to modify or revise any forward-looking statements to reflect events or circumstances occurring after the date of this Quarterly Report.

Real Estate Property Earnings Before Taxes

We use a number of operating measures for assessing operating performance of properties within our segments, some of which may not be common among all three of our segments. We believe that investors may find some operating measures more useful than others when separately evaluating each segment. One common operating measure used to assess operating results for our business segments is Real Estate Property Earnings Before Taxes (“REP EBT”). We believe REP EBT provides useful information about our operating performance because it excludes certain non-recurring and non-cash

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items which we believe are not indicative of our core business. REP EBT may be calculated differently by other companies in our industry, limiting its usefulness as a comparative measure.

REP EBT, as it relates to our business, is defined as net income (loss) excluding general and administrative expenses, corporate other income, corporate interest income, corporate interest and depreciation expense, provision for income taxes, and warrant liability gain (loss). We present REP EBT because we use this measure, among others, internally to assess the core operating performance of our assets. We also present this measure because we believe certain investors use it as a measure of a company's historical operating performance and its ability to service and incur debt. We believe that the inclusion of certain adjustments to net income (loss) to calculate REP EBT is appropriate to provide additional information to investors. A reconciliation of REP EBT to consolidated net income (loss) as computed in accordance with GAAP has been presented in Note 16 – Segments. We also provide a measure of Adjusted Operating Assets REP EBT, which excludes depreciation and amortization, demolition costs, and development-related marketing costs. A reconciliation of Adjusted Operating Assets EBT to Operating Assets EBT is included in the Operating Asset discussion.

REP EBT should not be considered as an alternative to GAAP net income (loss) attributable to common stockholders or GAAP net income (loss), as it has limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of the limitations of this metric are that it does not include the following:

- cash expenditures, or future requirements for capital expenditures or contractual commitments;
- corporate general and administrative expenses;
- interest expense on our corporate debt;
- income taxes that we may be required to pay;
- any cash requirements for replacement of fully depreciated or amortized assets; and
- limitations on, or costs related to, transferring earnings from our Real Estate and Other Affiliates to us.

Operating Assets Net Operating Income

We believe that net operating income ("NOI") is a useful supplemental measure of the performance of our Operating Assets because it provides a performance measure that, when compared year over year, reflects the revenues and expenses directly associated with owning and operating real estate properties and the impact on operations from trends in rental and occupancy rates and operating costs. We define NOI as operating revenues (rental income, tenant recoveries and other revenue) less operating expenses (real estate taxes, repairs and maintenance, marketing and other property expenses). NOI excludes straight line rents and amortization of tenant incentives, net interest expense, ground rent amortization, demolition costs, amortization, depreciation, development-related marketing costs and equity in earnings from Real Estate Affiliates. We use NOI to evaluate our operating performance on a property-by-property basis because NOI allows us to evaluate the impact that factors, which vary by property, such as lease structure, lease rates and tenant base have on our operating results, gross margins and investment returns.

Although we believe that NOI provides useful information to investors about the performance of our Operating Assets, due to the exclusions noted above, NOI should only be used as an additional measure of the financial performance of such assets and not as an alternative to GAAP net income (loss). For reference, and as an aid in understanding our computation of NOI, a reconciliation of Operating Assets NOI to Operating Assets REP EBT has been presented in the Operating Assets segment discussion below.

Results of Operations

Our revenues are primarily derived from the sale of individual lots at our master planned communities to homebuilders, from tenants at our operating assets in the form of fixed minimum rents, overage rent and recoveries of operating expenses, and from the sale of condominium units.

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The following table reflects our results of operations for the three months ended March 31, 2016 and 2015, respectively:

(In thousands, except per share amounts)	Three Months Ended March 31, 2016	2015	Change
Revenues			
MPC segment revenues	$ 49,755	$ 57,278	$ (7,523)
Operating Assets segment revenues	67,633	62,162	5,471
Strategic Developments segment revenues	122,278	35,650	86,628
Total revenues	$ 239,666	$ 155,090	$ 84,576
MPC segment REP EBT	$ 29,745	$ 28,082	$ 1,663
Operating Assets segment REP EBT	1,290	(103)	1,393
Strategic Developments segment REP EBT	182,818	9,836	172,982
Total segment REP EBT (a)	213,853	37,815	176,038
General and administrative	(20,324)	(18,963)	(1,361)
Corporate interest expense, net	(13,076)	(13,212)	136
Warrant liability gain (loss)	29,820	(108,810)	138,630
Corporate other income, net	(246)	1,132	(1,378)
Corporate depreciation and amortization	(1,029)	(1,637)	608
Provision for income taxes	(65,233)	(2,284)	(62,949)
Net income (loss)	143,765	(105,959)	249,724
Net income attributable to noncontrolling interests	—	—	—
Net income (loss) attributable to common stockholders	$ 143,765	$ (105,959)	$ 249,724
Diluted income (loss) per share	$ 2.69	$ (2.68)	$ 5.37

(a) Total segment REP EBT includes depreciation and amortization expense. Non-cash total segment depreciation and amortization, primarily relating to Operating Assets placed into service, is currently offsetting the net operating income generated from these properties because they typically will not stabilize for 12 – 36 months after they are placed into service, but the full amount of their annual depreciation and amortization begins when they are placed into service. The following table shows the amounts included in segment REP EBT related to non-cash depreciation and amortization:

	Three Months Ended March 31, 2016	2015	Change
Total segment depreciation and amortization	$ 21,943	$ 19,873	$ 2,070

Total revenues for the three months ended March 31, 2016 increased compared to the same period in 2015 primarily due to higher revenues in our Strategic Developments and Operating Assets segments. Strategic Developments segment revenue increased due to higher revenue related to sales at our Waiea and Anaha condominium projects. Operating Assets segment revenue increased primarily due to assets placed in service in 2016 and 2015, including The Westin at The Woodlands, Hughes Landing Hotel (Embassy Suites), Creekside Village, Hughes Landing Retail, One

Lakes Edge and One Summerlin, and the ongoing stabilization of Downtown Summerlin, Outlet Collection at Riverwalk and Two Hughes Landing. The MPC segment revenues decrease is due to a decline in residential land sales in our MPCs for the three months ended March 31, 2016 as compared to the same period in 2015, partially offset by commercial land sales in The Woodlands during the first quarter 2016.

General and administrative expenses for the three months ended March 31, 2016 increased compared to the same period in 2015. The increase is primarily due to $1.3 million of compensation costs related to increased headcount compared to the prior year.

The increase in the provision for income taxes for the three months ended March 31, 2016 compared to the same period in 2015 is attributable to an increase of $176.5 million in operating income offset by lower interest expense on the uncertain tax position as compared to the same period in 2015. Operating income on our condensed consolidated statement of operations was $193.0 million and $16.5 million for the three months ended March 31, 2016 and 2015, respectively.

We have significant permanent differences, primarily from warrant liability gains and losses and changes in valuation allowances that cause our effective tax rate to deviate greatly from statutory rates. The effective tax rate based upon actual operating results was 31.2% for the three months ended March 31, 2016 compared to (2.2%) for the same period in 2015. The changes in the tax rate were primarily attributable to changes in the warrant liability, valuation allowance related to our deferred tax asset, as well as other items which are permanent differences for tax purposes. If changes in the warrant

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liability, valuation allowance, unrecognized tax benefits, and other material discrete adjustments to deferred tax liabilities were excluded from the effective tax rate computation, the effective tax rates would have been 37.1% and 34.8% for the three months ended March 31, 2016 and 2015, respectively.

The increase in Net income (loss) attributable to common stockholders for the three months ended March 31, 2016 compared to the same period in 2015 is primarily due to a gain on the sale of the 80 South Street Assemblage, significant growth in earnings from condominium rights and unit sales in our Strategic Developments segment, a warrant liability gain, and slightly increased earnings in our MPC and Operating Assets segments. These increases were partially offset by higher general and administrative expenses, an increased provision for income taxes, and higher interest expense.

Please refer to the individual segment operations sections that follow for explanations of segment performance.

Segment Operations

Please refer to Note 16 - Segments for additional information including reconciliations of our segment basis results to generally accepted accounting principles (“GAAP”) basis results.

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Master Planned Communities

Master Planned Communities Revenues and Expenses(*)

For the three months ended March 31, 2016 and 2015

(In thousands, except %)

	Bridgeland		Maryland Communities		Summerlin		The Woodlands		The Woodla Hills	
(In thousands)	2016	2015	2016	2015	2016	2015	2016	2015	2016	2
Land sales	$ 4,281	$ 4,578	$ —	$ —	$ 24,792	$ 36,288	$ 12,869	$ 7,215	$ —	$
Builder price participation	255	123	—	—	3,889	4,262	503	1,313	—	
Minimum rents	—	—	—	—	143	213	—	—	—	
Other land sale revenues	75	137	2	51	2,817	1,780	129	1,318	—	
Total revenues	4,611	4,838	2	51	31,641	42,543	13,501	9,846	—	
Cost of sales - land	1,447	1,672	—	—	9,141	19,795	5,100	2,429	—	
Land sales operations	1,003	988	81	104	2,505	2,692	3,659	3,795	52	
Land sales real estate and business taxes	236	74	165	166	541	936	1,329	1,228	23	
Depreciation and amortization	24	30	5	5	24	30	30	30	—	
Total expenses	2,710	2,764	251	275	12,211	23,453	10,118	7,482	75	
Operating income	1,901	2,074	(249)	(224)	19,430	19,090	3,383	2,364	(75)	
Interest expense, net (a)	(2,466)	(2,277)	(9)	(10)	(4,367)	(3,517)	1,624	1,220	(137)	
MPC REP EBT	$ 4,367	$ 4,351	$ (240)(c)	$ (214)(c)	$ 23,797	$ 22,607	$ 1,759	$ 1,144	$ 62	$

Gross Margin % (b)	66.2	%	63.5	%	NM	NM	63.1	%	45.5	%	60.4	%	66.3 %	NM

(*) For a reconciliation of MPC REP EBT to consolidated income (loss) before taxes, refer to Note 16 – Segments.

(a) Negative interest expense amounts relate to interest capitalized on debt assigned to our Operating Assets segment and corporate debt.
(b) Gross margin % is the ratio of Land sales less Cost of sales-land, divided by Land sales.
(c) The negative MPC REP EBT in Maryland is due to no land sales in 2016 or 2015; however, certain costs such as real estate taxes and administrative expenses continue to be incurred.
NM – Not meaningful

MPC revenues vary between periods based on economic conditions and several factors such as, but not limited to, location, availability of land for sale, development density and residential or commercial use. Gross margin for each MPC may vary from period to period based on the locations of the land sold and the related costs associated with developing the land sold. Reported results may differ significantly from actual cash flows generated principally because cost of sales for GAAP purposes is derived from margins calculated using carrying values, projected future improvements and other capitalized project costs in relation to projected future land sale revenues. Carrying values, generally, represent acquisition and development costs reduced by any previous impairment charges. Development expenditures are capitalized and generally not reflected in the condensed consolidated statements of operations in the current period.

Builder price participation revenue is based on an agreed-upon percentage of the estimated sales price of the home relative to the base lot price.

Cost of sales – land includes both actual and estimated future costs allocated based upon relative sales value to the lots or land parcels in each of the villages and neighborhoods in our MPCs.

Interest expense, net reflects the amount of interest that is capitalized at the project level.

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Although our business does not involve the sale or resale of homes, we believe that net new home sales are an important indicator of future demand for our superpad sites and lots; therefore, we use this statistic where relevant in the discussion of our MPC operating results. Net new home sales reflect home sales made by homebuilders, less cancelations. Cancelations occur when a home buyer signs a contract to purchase a home, but later fails to qualify for a home mortgage or is unable to provide an adequate down payment to complete the home sale.

MPC Sales Summary

	Land Sales		Acres Sold		Number of Lots/Units		Price per acre		Price per lot	
	Three Months Ended March 31,									
($ In thousands)	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Bridgeland										
Residential										
Single family - detached	$ 4,213	$ 4,578	11.1	11.8	64	41	$ 380	$ 388	$ 66	$ 112
Total	4,213	4,578	11.1	11.8	64	41	380	388	66	112
$ Change	(365)		(0.7)		23		(8)		(46)	
% Change	(8.0%)		(5.9%)		56.1%		(2.1%)		(41.1%)	
Maryland Communities										
No land sales										
Summerlin										
Residential										
Superpad sites	40,000	16,774	116.8	29.2	552	78	342	574	72	215
Single family - detached	—	13,650	—	14.9	—	75	—	916	—	182
Custom lots	2,140	2,545	1.3	2.0	4	5	1,646	1,273	535	509
Total	42,140	32,969	118.1	46.1	556	158	357	715	76	209
$ Change	9,171		72.0		398		(358)		(133)	
% Change	27.8%		156.2%		251.9%		(50.1%)		(63.6%)	
The Woodlands										
Residential										
Single family - detached	2,464	6,807	4.1	9.8	17	37	601	695	145	184
Single family - attached	—	408	—	0.8	—	9	—	510	—	45
Commercial										
Medical	10,405	—	4.3	—	—	—	2,420	—	—	—
Total	12,869	7,215	8.4	10.6	17	46	1,532	681	145	157
$ Change	5,654		(2.2)		(29)		851		(12)	

% Change	78.4%		(20.8%)		(63.0%)		125.0%	(7.6%)
Total acreage sales revenue	59,222	44,762	137.6	68.5	637	245		
Deferred revenue								
Bridgeland	68	—						
Summerlin	(17,380)	393						
Total Deferred Revenue	(17,312)	393						
Special Improvement District revenue *	32	2,926						
Total segment land sales revenue - GAAP basis	$ 41,942	$ 48,081						

*Applicable exclusively to Summerlin.