**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**FORM 10-Q**

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**(Mark One)**

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

**For the quarterly period ended September 30, 2017**

**or**

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

**For the transition period from** **to**



**Commission File Number 1-35796**

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_



**TRI Pointe Group, Inc.**

**(Exact Name of Registrant as Specified in Its Charter)**

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

|  |  |
| --- | --- |
| **Delaware** | **61-1763235** |
| **(State or other Jurisdiction of** | **(I.R.S. Employer** |
| **Incorporation or Organization)** | **Identification No.)** |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**19540 Jamboree Road, Suite 300**

**Irvine, California 92612**

**(Address of principal executive offices) (Zip Code)**

**Registrant’s telephone number, including area code (949) 438-1400**

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

|  |  |  |
| --- | --- | --- |
| Large accelerated filer | ☒ | Accelerated filer |
| Non-accelerated filer | ☐ (Do not check if a smaller reporting company) | Smaller reporting company |
|  |  | Emerging Growth Company |

☐

☐

☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒ 150,432,421 shares of common stock were issued and outstanding as of October 16, 2017.

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**EXPLANATORY NOTE**

As used in this Quarterly Report on Form 10-Q, references to “TRI Pointe”, “the Company”, “we”, “us”, or “our” (including in the consolidated financial statements and related notes thereto in this report) refer to TRI Pointe Group, Inc., a Delaware corporation (“TRI Pointe Group”) and its subsidiaries.

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**TRI POINTE GROUP, INC.**

**FORM 10-Q**

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**September 30, 2017**

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| **PART I. FINANCIAL INFORMATION** | |  |  |  |  |  |  |
| **Item 1.** | **Financial Statements** |  |  |  |  |  |  |
|  | **TRI POINTE GROUP, INC.** |  |  |  |  |  |  |
|  | **CONSOLIDATED BALANCE SHEETS** |  |  |  |  |  |  |
|  | **(in thousands, except share amounts)** |  |  |  |  |  |  |
|  |  |  | **September 30, 2017** |  |  | **December 31, 2016** |  |
|  |  |  | (unaudited) | |  |  |  |
| **Assets** |  |  |  |  |  |  |  |
| Cash and cash equivalents | | $ | 162,396 |  | $ | 208,657 |  |
|  | |  |  |  |  |  |  |
| Receivables | |  | 84,583 |  |  | 82,500 |  |
| Real estate inventories | |  | 3,303,421 |  |  | 2,910,627 |  |
|  | |  |  |  |  |  |  |
| Investments in unconsolidated entities | |  | 17,616 |  |  | 17,546 |  |
| Goodwill and other intangible assets, net | |  | 161,094 |  |  | 161,495 |  |
|  | |  |  |  |  |  |  |
| Deferred tax assets, net | |  | 108,664 |  |  | 123,223 |  |
| Other assets | |  | 58,292 |  |  | 60,592 |  |
|  | |  |  |  |  |  |  |
| Total assets | | $ | 3,896,066 |  | $ | 3,564,640 |  |
| **Liabilities** | |  |  |  |  |  |  |
|  |  |  |  |  |  |
|  | |  |  |  |  |  |  |
| Accounts payable | | $ | 64,038 |  | $ | 70,252 |  |
| Accrued expenses and other liabilities | |  | 316,487 |  |  | 263,845 |  |
|  | |  |  |  |  |  |  |
| Unsecured revolving credit facility | |  | 200,000 |  |  | 200,000 |  |
| Seller financed loan | |  | — | |  | 13,726 |  |
|  | |  |  |  |  |  |  |
| Senior notes, net | |  | 1,469,558 |  |  | 1,168,307 |  |
| Total liabilities | |  | 2,050,083 |  |  | 1,716,130 |  |
|  | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| Commitments and contingencies (Note 13) | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| **Equity** |  |  |  |  |  |  |  |
|  | |  |  |  |  |  |  |
| Stockholders’ Equity: | |  |  |  |  |  |  |
| Preferred stock, $0.01 par value, 50,000,000 shares authorized; no | |  |  |  |  |  |  |
|  | shares issued and outstanding as of September 30, 2017 and |  |  |  |  |  |  |
|  | December 31, 2016, respectively |  | — | |  | — |  |
|  | |  |  |  |  |  |  |
| Common stock, $0.01 par value, 500,000,000 shares authorized; | |  |  |  |  |  |  |
|  | 150,429,021 and 158,626,229 shares issued and outstanding at |  |  |  |  |  |  |
|  | September 30, 2017 and December 31, 2016, respectively |  | 1,504 |  |  | 1,586 |  |
| Additional paid-in capital | |  | 780,715 |  |  | 880,822 |  |
|  | |  |  |  |  |  |  |
| Retained earnings | |  | 1,060,210 |  |  | 947,039 |  |
| Total stockholders’ equity | |  | 1,842,429 |  |  | 1,829,447 |  |
|  | |  |  |  |  |  |  |
| Noncontrolling interests | |  | 3,554 |  |  | 19,063 |  |
| Total equity | |  | 1,845,983 |  |  | 1,848,510 |  |
|  | |  |  |  |  |  |  |
| Total liabilities and equity | | $ | 3,896,066 |  | $ | 3,564,640 |  |
|  |  |  |  |  |  |  |  |

*See accompanying condensed notes to the unaudited consolidated financial statements.*

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**TRI POINTE GROUP, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(unaudited)**

**(in thousands, except share and per share amounts)**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended September 30,** | | | | |  | **Nine Months Ended September 30,** | | | |
|  |  | **2017** |  |  | **2016** |  |  | **2017** |  |  | **2016** |
| **Homebuilding:** |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Home sales revenue | $ | 648,638 |  | $ | 578,653 |  | $ | 1,609,458 |  | $ | 1,558,633 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Land and lot sales revenue |  | 68,218 |  |  | 2,535 |  |  | 69,661 |  |  | 70,204 |
| Other operations revenue |  | 584 |  |  | 606 |  |  | 1,752 |  |  | 1,790 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Total revenues |  | 717,440 |  |  | 581,794 |  |  | 1,680,871 |  |  | 1,630,627 |
| Cost of home sales |  | 521,918 |  |  | 462,323 |  |  | 1,294,563 |  |  | 1,219,560 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Cost of land and lot sales |  | 12,001 |  |  | 1,734 |  |  | 13,299 |  |  | 16,973 |
| Other operations expense |  | 575 |  |  | 575 |  |  | 1,726 |  |  | 1,724 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Sales and marketing |  | 33,179 |  |  | 31,852 |  |  | 92,209 |  |  | 90,621 |
| General and administrative |  | 32,956 |  |  | 31,278 |  |  | 101,293 |  |  | 90,293 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Homebuilding income from operations |  | 116,811 |  |  | 54,032 |  |  | 177,781 |  |  | 211,456 |
| Equity in (loss) income of unconsolidated entities |  | — | |  | (20) |  |  | 1,646 |  |  | 181 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Other income, net |  | 26 |  |  | 21 |  |  | 147 |  |  | 287 |
| Homebuilding income before income taxes |  | 116,837 |  |  | 54,033 |  |  | 179,574 |  |  | 211,924 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Financial Services:** |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Revenues |  | 295 |  |  | 235 |  |  | 881 |  |  | 762 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Expenses |  | 82 |  |  | 72 |  |  | 233 |  |  | 183 |
| Equity in income of unconsolidated entities |  | 1,351 |  |  | 1,247 |  |  | 2,911 |  |  | 3,246 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Financial services income before income taxes |  | 1,564 |  |  | 1,410 |  |  | 3,559 |  |  | 3,825 |
| **Income before income taxes** |  | 118,401 |  |  | 55,443 |  |  | 183,133 |  |  | 215,749 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Provision for income taxes |  | (46,112) |  |  | (20,298) |  |  | (69,824) |  |  | (77,701) |
| Net income |  | 72,289 |  |  | 35,145 |  |  | 113,309 |  |  | 138,048 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Net income attributable to noncontrolling interests |  | (25) |  |  | (311) |  |  | (138) |  |  | (738) |
| Net income available to common stockholders | $ | 72,264 |  | $ | 34,834 |  | $ | 113,171 |  | $ | 137,310 |
| Earnings per share |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Basic | $ | 0.48 |  | $ | 0.22 |  | $ | 0.73 |  | $ | 0.85 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Diluted | $ | 0.48 |  | $ | 0.22 |  | $ | 0.73 |  | $ | 0.85 |
| Weighted average shares outstanding |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Basic |  | 151,214,744 |  |  | 160,614,055 |  |  | 155,238,206 |  |  | 161,456,520 |
| Diluted |  | 152,129,825 |  |  | 161,267,509 |  |  | 155,936,076 |  |  | 161,916,352 |

*See accompanying condensed notes to the unaudited consolidated financial statements.*

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**TRI POINTE GROUP, INC.**

**CONSOLIDATED STATEMENTS OF EQUITY**

**(unaudited)**

**(in thousands, except share amounts)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Number of** | |  |  |  |  | **Additional** | |  |  |  |  | **Total** | |  |  |  |  |  |
|  | **Shares of Common** | |  | **Common** | |  | **Paid-in** | |  | **Retained** | |  | **Stockholders'** | |  | **Noncontrolling** | |  | **Total** |
|  | **Stock (Note 1)** | |  | **Stock** | |  | **Capital** | |  | **Earnings** | |  | **Equity** | |  | **Interests** | |  | **Equity** |
| Balance at December 31, 2015 | 161,813,750 |  | $ | 1,618 |  | $ | 911,197 |  | $ | 751,868 |  | $ | 1,664,683 |  | $ | 21,780 |  | $ | 1,686,463 |
| Net income | — | |  | — | |  | — | |  | 195,171 |  |  | 195,171 |  |  | 962 |  |  | 196,133 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Shares issued under share-based |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| awards | 373,332 |  |  | 4 |  |  | 583 |  |  | — | |  | 587 |  |  | — | |  | 587 |
| Excess tax deficit of share-based |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| awards, net | — | |  | — | |  | (165) |  |  | — | |  | (165) |  |  | — | |  | (165) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Minimum tax withholding paid on |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| behalf of employees for restricted |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| stock units | — | |  | — | |  | (1,359) |  |  | — | |  | (1,359) |  |  | — | |  | (1,359) |
| Stock-based compensation expense | — | |  | — | |  | 12,612 |  |  | — | |  | 12,612 |  |  | — | |  | 12,612 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Share repurchases | (3,560,853) |  |  | (36) |  |  | (42,046) |  |  | — | |  | (42,082) |  |  | — | |  | (42,082) |
| Distributions to noncontrolling |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| interests, net | — | |  | — | |  | — | |  | — | |  | — | |  | (3,363) |  |  | (3,363) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net effect of consolidations, de- |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| consolidations and other |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| transactions | — | |  | — | |  | — | |  | — | |  | — | |  | (316) |  |  | (316) |
| Balance at December 31, 2016 | 158,626,229 |  |  | 1,586 |  |  | 880,822 |  |  | 947,039 |  |  | 1,829,447 |  |  | 19,063 |  |  | 1,848,510 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income | — | |  | — | |  | — | |  | 113,171 |  |  | 113,171 |  |  | 138 |  |  | 113,309 |
| Shares issued under share-based |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| awards | 797,497 |  |  | 8 |  |  | 3,285 |  |  | — | |  | 3,293 |  |  | — | |  | 3,293 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Minimum tax withholding paid on |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| behalf of employees for restricted |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| stock units | — | |  | — | |  | (2,896) |  |  | — | |  | (2,896) |  |  | — | |  | (2,896) |
| Stock-based compensation expense | — | |  | — | |  | 11,631 |  |  | — | |  | 11,631 |  |  | — | |  | 11,631 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Share repurchases | (8,994,705) |  |  | (90) |  |  | (112,127) |  |  | — | |  | (112,217) |  |  | — | |  | (112,217) |
| Distributions to noncontrolling |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| interests, net | — | |  | — | |  | — | |  | — | |  | — | |  | (987) |  |  | (987) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net effect of consolidations, de- |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| consolidations and other |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| transactions | — | |  | — | |  | — | |  | — | |  | — | |  | (14,660) |  |  | (14,660) |
| Balance at September 30, 2017 | 150,429,021 |  | $ | 1,504 |  | $ | 780,715 |  | $ | 1,060,210 |  | $ | 1,842,429 |  | $ | 3,554 |  | $ | 1,845,983 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

*See accompanying condensed notes to the unaudited consolidated financial statements.*

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**TRI POINTE GROUP, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(unaudited)**

**(in thousands)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Nine Months Ended September 30,** | | | |
|  |  | **2017** |  |  | **2016** |
| **Cash flows from operating activities:** |  |  |  |  |  |
| Net income | $ | 113,309 |  | $ | 138,048 |
|  |  |  |  |  |  |
| Adjustments to reconcile net income to net cash used in operating activities: |  |  |  |  |  |
| Depreciation and amortization |  | 2,567 |  |  | 2,322 |
|  |  |  |  |  |  |
| Equity in income of unconsolidated entities, net |  | (4,557) |  |  | (3,427) |
| Deferred income taxes, net |  | 14,559 |  |  | 18,770 |
|  |  |  |  |  |  |
| Amortization of stock-based compensation |  | 11,631 |  |  | 9,648 |
| Charges for impairments and lot option abandonments |  | 1,203 |  |  | 678 |
|  |  |  |  |  |  |
| Excess tax deficit of share-based awards |  | — | |  | (170) |
| Changes in assets and liabilities: |  |  |  |  |  |
|  |  |  |  |  |  |
| Real estate inventories |  | (401,322) |  |  | (442,671) |
| Receivables |  | (3,263) |  |  | 8,549 |
|  |  |  |  |  |  |
| Other assets |  | 3,894 |  |  | (16,806) |
| Accounts payable |  | (6,214) |  |  | 12,827 |
|  |  |  |  |  |  |
| Accrued expenses and other liabilities |  | 52,640 |  |  | 5,876 |
| Returns on investments in unconsolidated entities, net |  | 4,897 |  |  | 5,049 |
|  |  |  |  |  |  |
| Net cash used in operating activities |  | (210,656) |  |  | (261,307) |
| **Cash flows from investing activities:** |  |  |  |  |  |
|  |  |  |  |  |  |
| Purchases of property and equipment |  | (2,212) |  |  | (2,056) |
| Proceeds from sale of property and equipment |  | 6 |  |  | — |
|  |  |  |  |  |  |
| Investments in unconsolidated entities |  | (934) |  |  | (32) |
| Net cash used in investing activities |  | (3,140) |  |  | (2,088) |
|  |  |  |  |  |  |
| **Cash flows from financing activities:** |  |  |  |  |  |
| Borrowings from debt |  | 500,000 |  |  | 491,069 |
|  |  |  |  |  |  |
| Repayment of debt |  | (213,726) |  |  | (276,826) |
| Debt issuance costs |  | (5,932) |  |  | (5,061) |
|  |  |  |  |  |  |
| Net repayments of debt held by variable interest entities |  | — | |  | (2,442) |
| Contributions from noncontrolling interests |  | — | |  | 1,955 |
|  |  |  |  |  |  |
| Distributions to noncontrolling interests |  | (987) |  |  | (5,059) |
| Proceeds from issuance of common stock under share-based awards |  | 3,293 |  |  | 461 |
|  |  |  |  |  |  |
| Minimum tax withholding paid on behalf of employees for share-based awards |  | (2,896) |  |  | (1,359) |
| Share repurchases |  | (112,217) |  |  | (25,113) |
|  |  |  |  |  |  |
| Net cash provided by financing activities |  | 167,535 |  |  | 177,625 |
| Net decrease in cash and cash equivalents |  | (46,261) |  |  | (85,770) |
|  |  |  |  |  |  |
| Cash and cash equivalents - beginning of period |  | 208,657 |  |  | 214,485 |
| Cash and cash equivalents - end of period | $ | 162,396 |  | $ | 128,715 |
|  |  |  |  |  |  |

*See accompanying condensed notes to the unaudited consolidated financial statements.*

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**TRI POINTE GROUP, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

1. **Organization, Basis of Presentation and Summary of Significant Accounting Policies**

**Organization**

TRI Pointe Group is engaged in the design, construction and sale of innovative single-family attached and detached homes through its portfolio of six quality brands across eight states, including Maracay Homes in Arizona, Pardee Homes in California and Nevada, Quadrant Homes in Washington, Trendmaker Homes in Texas, TRI Pointe Homes in California and Colorado and Winchester Homes in Maryland and Virginia.

**Basis of Presentation**

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”), as contained within the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”), for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. They should be read in conjunction with our consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016. In the opinion of management, all adjustments consisting of normal recurring adjustments, necessary for a fair presentation with respect to interim financial statements, have been included. The results for the three months and nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the full year due to seasonal variations and other factors.

The consolidated financial statements include the accounts of TRI Pointe Group and its wholly owned subsidiaries, as well as other entities in which TRI Pointe Group has a controlling interest and variable interest entities (“VIEs”) in which TRI Pointe Group is the primary beneficiary. The noncontrolling interests as of September 30, 2017 and December 31, 2016 represent the outside owners’ interests in the Company’s consolidated entities and the net equity of the VIE owners. All significant intercompany accounts have been eliminated upon consolidation.

**Use of Estimates**

The preparation of our financial statements requires our management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from our estimates.

**Reclassifications**

Certain amounts in our consolidated financial statements for the prior year periods have been reclassified to conform to the presentation of the current year periods, including the Company's reclassification of restructuring charges, which was presented as a separate line item on the consolidated statement of operations in the prior year, and has been reclassified to general and administrative expense for both the current and prior years. This reclassification had no material impact on the Company's condensed consolidated financial statements.

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**Recently Issued Accounting Standards**

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (Codified as "ASC 606"). The core principle of ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognize revenue when (or as) the entity satisfies a performance obligation. ASC 606 supersedes the revenue-recognition requirements in ASC Topic 605, *Revenue Recognition*, most industry-specific guidance throughout the industry topics of the accounting standards codification, and some cost guidance related to construction-type and production-type contracts. ASC 606 is effective for public entities for the annual periods ending after December 15, 2017, and for annual and interim periods thereafter. Companies may use either a full retrospective or a modified retrospective approach to adopt ASC 606, and we expect to adopt the new standard under the modified retrospective approach. The Company's assessment efforts to date have included reviewing current accounting policies and processes, as well as assigning internal resources to assist in the process. Additionally, the Company has begun to review historical contracts and other arrangements to identify potential differences that could arise from the adoption of ASC 606. We are still evaluating the accounting for certain marketing costs and it is likely that the adoption of ASC 606 will impact the timing of recognition and classification in our consolidated financial statements of certain marketing costs that we incur to obtain sales contracts from our customers. For example, we currently capitalize and amortize various marketing costs with each home delivered in a community. Under the new guidance, these costs may need to be expensed when incurred or capitalized to other assets and amortized to selling expense. Although we are still evaluating our contracts, we do not believe the adoption of ASC 606 will have a material impact on the amount or timing of our home sales revenue, but could impact the amount and timing of land and lot sales. We are continuing to evaluate the exact impact the new standard will have on recording revenue and our marketing costs in our consolidated financial statements and related disclosures.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, (Codified as “ASC 842”), which requires an entity to recognize assets and liabilities on the balance sheet for the rights and obligations created by leased assets and provide additional disclosures. ASC 842 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and, at that time, we will adopt the new standard using a modified retrospective approach. We are currently evaluating the impact that the adoption of ASC 842 may have on our consolidated financial statements and disclosures.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, (“ASU 2016-09”), *Compensation-Stock Compensation (Topic 718):* *Improvements to Employee Share-Based Payment Accounting.* On January 1, 2017, we adopted ASU 2016-09. This new guidance requires that we recordexcess tax benefit and tax deficiencies related to the settlement of employee stock-based compensation to the income tax expense line item on our consolidated statement of operations. We previously recorded the excess tax benefits and tax deficiencies to the additional paid-in capital line item on our consolidated balance sheets. Under the new guidance, the Company elected the option to no longer apply a forfeiture rate to our stock-based compensation expense, and to recognize forfeitures as they occur. The adoption of the aforementioned amendments in ASU 2016-09 were applied using the modified retrospective approach and did not have a material impact on our current or prior year financial statements, with no resulting cumulative-effect adjustment to retained earnings. The new guidance also requires excess tax benefits to be classified as an operating activity in the statement of cash flows rather than as a financing activity. Additionally, ASU 2016-09 requires that the minimum tax withholding paid on behalf of employees for share-based awards be classified as a financing activity in the statement of cash flows. Adoption of ASU 2016-09 did not result in any adjustments to prior period disclosures on the statement of cash flows.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, (“ASU 2016-15”), *Statement of Cash Flows (Topic 230)*: *Classification* *of Certain Cash Receipts and Cash Payments,* which provides guidance on how certain cash receipts and cash payments are to be presented and classified inthe statement of cash flows. ASU 2016-15 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted. We are currently evaluating the impact that adoption of ASU 2016-15 may have on our consolidated financial statements and disclosures, however we do not believe the guidance will have a material impact on our financial statements upon adoption.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, (“ASU 2017-04”), *Intangibles - Goodwill and Other (Topic 350):* *Simplifying the Accounting for Goodwill Impairment*, which removes the requirement to perform a hypothetical purchase price allocation to measure goodwillimpairment. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, with early adoption permitted, and applied prospectively. We do not expect ASU 2017-04 to have a material impact on our financial statements.

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1. **Segment Information**

We operate two principal businesses: homebuilding and financial services.

Our homebuilding operations consist of six homebuilding brands that acquire and develop land and construct and sell single-family detached and attached homes. In accordance with ASC Topic 280, *Segment Reporting*, in determining the most appropriate reportable segments, we considered similar economic and other characteristics, including product types, average selling prices, gross profits, production processes, suppliers, subcontractors, regulatory environments, land acquisition results, and underlying demand and supply. Based upon the above factors, our homebuilding operations are comprised of the following six reportable segments: Maracay Homes, consisting of operations in Arizona; Pardee Homes, consisting of operations in California and Nevada; Quadrant Homes, consisting of operations in Washington; Trendmaker Homes, consisting of operations in Texas; TRI Pointe Homes, consisting of operations in California and Colorado; and Winchester Homes, consisting of operations in Maryland and Virginia.

Our financial services operation (“TRI Pointe Solutions”) is a reportable segment and is comprised of mortgage financing operations (“TRI Pointe Connect”) and title services operations (“TRI Pointe Assurance”). While our homebuyers may obtain financing from any mortgage provider of their choice, TRI Pointe Connect, which was formed as a joint venture with an established mortgage lender, can act as a preferred mortgage broker to our homebuyers in all of the markets in which we operate, providing mortgage originations that help facilitate the sale and closing process as well as generate additional fee income for us. TRI Pointe Assurance provides title examinations for our homebuyers at our Trendmaker Homes and Winchester Homes brands. TRI Pointe Assurance is a wholly owned subsidiary of TRI Pointe and acts as a title agency for First American Title Insurance Company.

Corporate is a non-operating segment that develops and implements company-wide strategic initiatives and provides support to our homebuilding reporting segments by centralizing certain administrative functions, such as marketing, legal, accounting, treasury, insurance, internal audit and risk management, information technology and human resources, to benefit from economies of scale. Our Corporate non-operating segment also includes general and administrative expenses related to operating our corporate headquarters. A portion of the expenses incurred by Corporate is allocated to the homebuilding reporting segments.

The reportable segments follow the same accounting policies used for our consolidated financial statements, as described in Note 1, *Organization and* *Summary of Significant Accounting Policies*. Operational results of each reportable segment are not necessarily indicative of the results that would have beenachieved had the reportable segment been an independent, stand-alone entity during the periods presented.

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Total revenues and income before income taxes for each of our reportable segments were as follows (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended September 30,** | | | | |  | **Nine Months Ended September 30,** | | | |
|  |  | **2017** |  |  | **2016** |  |  | **2017** |  |  | **2016** |
| Revenues |  |  |  |  |  |  |  |  |  |  |  |
| Maracay Homes | $ | 78,167 |  | $ | 68,024 |  | $ | 204,981 |  | $ | 161,318 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Pardee Homes |  | 231,376 |  |  | 188,148 |  |  | 495,452 |  |  | 547,311 |
| Quadrant Homes |  | 54,781 |  |  | 48,354 |  |  | 135,599 |  |  | 153,575 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Trendmaker Homes |  | 53,787 |  |  | 64,251 |  |  | 171,615 |  |  | 172,509 |
| TRI Pointe Homes |  | 239,110 |  |  | 167,769 |  |  | 524,159 |  |  | 452,553 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Winchester Homes |  | 60,219 |  |  | 45,248 |  |  | 149,065 |  |  | 143,361 |
| Total homebuilding revenues |  | 717,440 |  |  | 581,794 |  |  | 1,680,871 |  |  | 1,630,627 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Financial services |  | 295 |  |  | 235 |  |  | 881 |  |  | 762 |
| Total | $ | 717,735 |  | $ | 582,029 |  | $ | 1,681,752 |  | $ | 1,631,389 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Income (loss) before income taxes |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Maracay Homes | $ | 6,431 |  | $ | 4,385 |  | $ | 14,429 |  | $ | 9,544 |
| Pardee Homes |  | 82,407 |  |  | 37,508 |  |  | 128,570 |  |  | 165,718 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Quadrant Homes |  | 6,251 |  |  | 5,497 |  |  | 13,104 |  |  | 14,808 |
| Trendmaker Homes |  | 3,233 |  |  | 3,516 |  |  | 9,657 |  |  | 9,439 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| TRI Pointe Homes |  | 24,382 |  |  | 11,723 |  |  | 39,779 |  |  | 34,651 |
| Winchester Homes |  | 4,284 |  |  | 1,692 |  |  | 6,903 |  |  | 6,345 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Corporate |  | (10,151) |  |  | (10,288) |  |  | (32,868) |  |  | (28,581) |
| Total homebuilding income before income taxes |  | 116,837 |  |  | 54,033 |  |  | 179,574 |  |  | 211,924 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Financial services |  | 1,564 |  |  | 1,410 |  |  | 3,559 |  |  | 3,825 |
| Total | $ | 118,401 |  | $ | 55,443 |  | $ | 183,133 |  | $ | 215,749 |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | - 10 - |  |  |  |  |  |  |  |  |  |

Total real estate inventories and total assets for each of our reportable segments, as of the date indicated, were as follows (in thousands):

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **September 30, 2017** | |  | **December 31, 2016** |
| Real estate inventories |  |  |  |  |  |
| Maracay Homes | $ | 246,223 |  | $ | 228,965 |
|  |  |  |  |  |  |
| Pardee Homes |  | 1,251,842 |  |  | 1,098,608 |
| Quadrant Homes |  | 281,272 |  |  | 221,386 |
|  |  |  |  |  |  |
| Trendmaker Homes |  | 213,179 |  |  | 211,035 |
| TRI Pointe Homes |  | 981,813 |  |  | 868,088 |
|  |  |  |  |  |  |
| Winchester Homes |  | 329,092 |  |  | 282,545 |
| Total | $ | 3,303,421 |  | $ | 2,910,627 |
|  |  |  |  |  |  |
| Total assets |  |  |  |  |  |
|  |  |  |  |  |  |
| Maracay Homes | $ | 274,263 |  | $ | 255,466 |
| Pardee Homes |  | 1,338,304 |  |  | 1,201,302 |
|  |  |  |  |  |  |
| Quadrant Homes |  | 312,160 |  |  | 242,208 |
| Trendmaker Homes |  | 236,800 |  |  | 225,025 |
|  |  |  |  |  |  |
| TRI Pointe Homes |  | 1,162,397 |  |  | 1,052,400 |
| Winchester Homes |  | 351,717 |  |  | 305,379 |
|  |  |  |  |  |  |
| Corporate |  | 210,574 |  |  | 275,923 |
| Total homebuilding assets |  | 3,886,215 |  |  | 3,557,703 |
|  |  |  |  |  |  |
| Financial services |  | 9,851 |  |  | 6,937 |
| Total | $ | 3,896,066 |  | $ | 3,564,640 |
|  |  |  |  |  |  |

1. **Earnings Per Share**

The following table sets forth the components used in the computation of basic and diluted earnings per share (in thousands, except share and per share amounts):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended September 30,** | | | | |  | **Nine Months Ended September 30,** | | | |  |
|  |  |  | **2017** |  |  | **2016** |  |  | **2017** |  |  | **2016** |  |
| Numerator: |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income available to common stockholders | $ | | 72,264 |  | $ | 34,834 |  | $ | 113,171 |  | $ | 137,310 |  |
| Denominator: |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic weighted-average shares outstanding |  |  | 151,214,744 |  |  | 160,614,055 |  |  | 155,238,206 |  |  | 161,456,520 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Effect of dilutive shares: |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Stock options and unvested restricted stock units |  |  | 915,081 |  |  | 653,454 |  |  | 697,870 |  |  | 459,832 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Diluted weighted-average shares outstanding |  |  | 152,129,825 |  |  | 161,267,509 |  |  | 155,936,076 |  |  | 161,916,352 |  |
| Earnings per share |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic |  | $ | 0.48 |  | $ | 0.22 |  | $ | 0.73 |  | $ | 0.85 |  |
| Diluted |  |  |  |  |  |  |  |  |  |  |  |  |  |
| $ | | 0.48 |  | $ | 0.22 |  | $ | 0.73 |  | $ | 0.85 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Antidilutive stock options and unvested restricted stock not included in |  |  | 3,406,498 |  |  | 3,806,396 |  |  | 3,710,674 |  |  | 4,551,337 |  |
| diluted earnings per share |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | - 11 - | |  |  |  |  |  |  |  |  |  |  |  |

1. **Receivables**

Receivables consisted of the following (in thousands):

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **September 30, 2017** | |  | **December 31, 2016** |
| Escrow proceeds and other accounts receivable, net | $ | 38,660 |  | $ | 35,625 |
| Warranty insurance receivable (Note 13) |  | 45,923 |  |  | 46,875 |
|  |  |  |  |  |  |
| Total receivables | $ | 84,583 |  | $ | 82,500 |
|  |  |  |  |  |  |

Receivables are evaluated for collectability and allowances for potential losses are established or maintained on applicable receivables when collection becomes doubtful. Receivables were net of allowances for doubtful accounts of $286,000 as of both September 30, 2017 and December 31, 2016.

1. **Real Estate Inventories**

Real estate inventories consisted of the following (in thousands):

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **September 30, 2017** | |  | **December 31, 2016** |
| Real estate inventories owned: |  |  |  |  |  |
| Homes completed or under construction | $ | 1,045,648 |  | $ | 659,210 |
|  |  |  |  |  |  |
| Land under development |  | 1,873,806 |  |  | 1,824,989 |
| Land held for future development |  | 135,801 |  |  | 226,915 |
|  |  |  |  |  |  |
| Model homes |  | 218,274 |  |  | 155,039 |
| Total real estate inventories owned |  | 3,273,529 |  |  | 2,866,153 |
|  |  |  |  |  |  |
| Real estate inventories not owned: |  |  |  |  |  |
| Land purchase and land option deposits |  | 26,992 |  |  | 26,174 |
|  |  |  |  |  |  |
| Consolidated inventory held by VIEs |  | 2,900 |  |  | 18,300 |
| Total real estate inventories not owned |  | 29,892 |  |  | 44,474 |
|  |  |  |  |  |  |
| Total real estate inventories | $ | 3,303,421 |  | $ | 2,910,627 |
|  |  |  |  |  |  |

Homes completed or under construction is comprised of costs associated with homes in various stages of construction and includes direct construction and related land acquisition and land development costs. Land under development primarily consists of land acquisition and land development costs, which include capitalized interest and real estate taxes, associated with land undergoing improvement activity. Land held for future development principally reflects land acquisition and land development costs related to land where development activity has not yet begun or has been suspended, but is expected to occur in the future.

Real estate inventories not owned represents deposits related to land purchase and land and lot option agreements as well as consolidated inventory held by variable interest entities. For further details, see Note 7, *Variable Interest Entities*.

During the quarter ended September 30, 2017, our Pardee Homes reporting segment sold a parcel, consisting of 69 homebuilding lots, located in the Pacific Highlands Ranch community in San Diego, California. The land sold in this sale was classified as land under development and represented $66.8 million of land and lot sales revenue in the consolidated statements of operations for the three and nine months ended September 30, 2017.

During the quarter ended June 30, 2016, our Pardee Homes reporting segment sold two parcels, totaling 102 homebuilding lots, located in the Pacific Highlands Ranch community in San Diego, California. The land sold in this sale was classified as land under development and represented $61.6 million of land and lot sales revenue in the consolidated statements of operations for nine months ended September 30, 2016.

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Interest incurred, capitalized and expensed were as follows (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended September 30,** | | | | |  | **Nine Months Ended September 30,** | | | |
|  |  | **2017** |  |  | **2016** |  |  | **2017** |  |  | **2016** |
| Interest incurred | $ | 22,865 |  | $ | 18,601 |  | $ | 61,669 |  | $ | 50,030 |
| Interest capitalized |  | (22,865) |  |  | (18,601) |  |  | (61,669) |  |  | (50,030) |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Interest expensed | $ | — | | $ | — | | $ | — | | $ | — |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Capitalized interest in beginning inventory | $ | 173,261 |  | $ | 151,347 |  | $ | 157,329 |  | $ | 140,311 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Interest capitalized as a cost of inventory |  | 22,865 |  |  | 18,601 |  |  | 61,669 |  |  | 50,030 |
| Interest previously capitalized as a cost of |  |  |  |  |  |  |  |  |  |  |  |
| inventory, included in cost of sales |  | (15,899) |  |  | (14,415) |  |  | (38,771) |  |  | (34,808) |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Capitalized interest in ending inventory | $ | 180,227 |  | $ | 155,533 |  | $ | 180,227 |  | $ | 155,533 |
|  |  |  |  |  |  |  |  |  |  |  |  |

Interest is capitalized to real estate inventory during development and other qualifying activities. Interest that is capitalized to real estate inventory is included in cost of home sales or cost of land and lot sales as related units or lots are delivered. Interest that is expensed as incurred is included in other income, net.

***Real estate inventory impairments and land option abandonments***

Real estate inventory impairments and land and lot option abandonments and pre-acquisition charges consisted of the following (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended September 30,** | | | | | |  | **Nine Months Ended September 30,** | | | |
|  | **2017** |  |  |  | **2016** |  |  | **2017** |  |  | **2016** |
| Real estate inventory impairments | $ | — | | $ | — | | $ | 267 |  | $ | — |
| Land and lot option abandonments and pre-acquisition charges |  | 374 |  |  | 389 |  |  | 936 |  |  | 678 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Total | $ | 374 |  | $ | 389 |  | $ | 1,203 |  | $ | 678 |
|  |  |  |  |  |  |  |  |  |  |  |  |

Impairments of real estate inventory relate primarily to projects or communities that include homes completed or under construction. Within a project or community, there may be individual homes or parcels of land that are currently held for sale. Impairment charges recognized as a result of adjusting individual held-for-sale assets within a community to estimated fair value less cost to sell are also included in the total impairment charges.

In addition to owning land and residential lots, we also have option agreements to purchase land and lots at a future date. We have option deposits and capitalized pre-acquisition costs associated with the optioned land and lots. When the economics of a project no longer support acquisition of the land or lots under option, we may elect not to move forward with the acquisition. Option deposits and capitalized pre-acquisition costs associated with the assets under option may be forfeited at that time.

Real estate inventory impairments and land option abandonments are recorded in cost of home sales and cost of land and lot sales on the consolidated statements of operations.

1. **Investments in Unconsolidated Entities**

As of September 30, 2017, we held equity investments in five active homebuilding partnerships or limited liability companies and one financial services limited liability company. Our participation in these entities may be as a developer, a builder, or an investment partner. Our ownership percentage varies from 7% to 65%, depending on the investment, with no controlling interest held in any of these investments.

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***Investments Held***

Our cumulative investment in entities accounted for on the equity method, including our share of earnings and losses, consisted of the following (in thousands):

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **September 30, 2017** | |  | **December 31, 2016** |
| Limited liability company interests | $ | 14,433 |  | $ | 14,327 |
| General partnership interests |  | 3,183 |  |  | 3,219 |
|  |  |  |  |  |  |
| Total | $ | 17,616 |  | $ | 17,546 |
|  |  |  |  |  |  |

***Unconsolidated Financial Information***

Aggregated assets, liabilities and operating results of the entities we account for as equity-method investments are provided below. Because our ownership interest in these entities varies, a direct relationship does not exist between the information presented below and the amounts that are reflected on our consolidated balance sheets as our investments in unconsolidated entities or on our consolidated statements of operations as equity in income of unconsolidated entities.

Assets and liabilities of unconsolidated entities (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **September 30, 2017** | | | |  |  | **December 31, 2016** | | |  |
| Assets | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Cash |  |  |  |  | $ | |  |  | 11,895 | $ | |  |  | 9,796 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Receivables |  |  |  |  |  |  |  |  | 4,871 |  |  |  |  | 10,203 |  |
|  | Real estate inventories |  |  |  |  |  |  |  |  | 98,370 |  |  |  |  | 97,402 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Other assets |  |  |  |  |  |  |  |  | 924 |  |  |  |  | 1,087 |  |
| Total assets | |  |  |  |  |  | $ |  |  | 116,060 |  | $ |  |  | 118,488 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Liabilities and equity | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Accounts payable and other liabilities |  |  |  |  | $ | |  |  | 8,612 | $ | |  |  | 12,844 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Company’s equity |  |  |  |  |  |  |  |  | 17,616 |  |  |  |  | 17,546 |  |
|  | Outside interests' equity |  |  |  |  |  |  |  |  | 89,832 |  |  |  |  | 88,098 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total liabilities and equity | |  |  |  |  | $ | |  |  | 116,060 | $ | |  |  | 118,488 |  |
|  | Results of operations from unconsolidated entities (in thousands): | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | |  |
|  |  | **2017** |  |  |  | **2016** | |  |  | **2017** |  |  |  |  | **2016** |  |
|  | Net sales | $ | 5,404 |  | $ | 4,619 | |  | $ | 15,722 | | | $ | | 12,516 |  |
| Other operating expense | |  | (3,532) |  |  | (2,913) | |  |  | (9,714) | | |  |  | (8,067) |  |
|  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |  |
|  | Other income |  | 36 |  |  | 1 | |  |  |  | 60 | |  |  | 3 |  |
| Net income | | $ | 1,908 |  | $ | 1,707 | |  | $ | 6,068 | | |  | $ | 4,452 |  |
|  |  |  |  |  |  |  | |  |  |  | | |  |  |  |  |
|  | Company’s equity in income of unconsolidated entities | $ | 1,351 |  | $ | 1,227 | |  | $ | 4,557 | | | $ | | 3,427 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. **Variable Interest Entities**

In the ordinary course of business, we enter into land and lot option agreements in order to procure land and residential lots for future development and the construction of homes. The use of such land and lot option agreements generally allows us to reduce the risks associated with direct land ownership and development, and reduces our capital and financial commitments. Pursuant to these land and lot option agreements, we generally provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices. Such deposits are recorded as land purchase and land option deposits under real estate inventories not owned in the accompanying consolidated balance sheets.

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We analyze each of our land and lot option agreements and other similar contracts under the provisions of ASC 810 *Consolidation* to determine whether the land seller is a VIE and, if so, whether we are the primary beneficiary. Although we do not have legal title to the underlying land, if we are determined to be the primary beneficiary of the VIE, we will consolidate the VIE in our financial statements and reflect its assets as real estate inventory not owned included in our real estate inventories, its liabilities as debt (nonrecourse) held by VIEs in accrued expenses and other liabilities and the net equity of the VIE owners as noncontrolling interests on our consolidated balance sheets. In determining whether we are the primary beneficiary, we consider, among other things, whether we have the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance. Such activities would include, among other things, determining or limiting the scope or purpose of the VIE, selling or transferring property owned or controlled by the VIE, or arranging financing for the VIE.

Creditors of the entities with which we have land and lot option agreements have no recourse against us. The maximum exposure to loss under our land and lot option agreements is limited to non-refundable option deposits and any capitalized pre-acquisition costs. In some cases, we have also contracted to complete development work at a fixed cost on behalf of the land owner and budget shortfalls and savings will be borne by us.

The following provides a summary of our interests in land and lot option agreements (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **September 30, 2017** | | |  |  |  |  |  |  | **December 31, 2016** | | |  |  |  |
|  |  |  |  |  |  | |  |  |  |  |  |  |  |  | |  |  |  |
|  |  |  |  |  | **Remaining** | |  | **Consolidated** | |  |  |  |  | **Remaining** | |  | **Consolidated** |  |
|  |  | **Deposits** | |  | **Purchase** | |  | **Inventory** | |  | **Deposits** | |  | **Purchase** | |  | **Inventory** |  |
|  |  |  | **Price** | |  | **Held by VIEs** | |  |  | **Price** | |  | **Held by VIEs** |  |
| Consolidated VIEs | $ | 75 |  | $ | 2,828 |  | $ | 2,900 |  | $ | 400 |  | $ | 17,900 |  | $ | 18,300 |  |
| Unconsolidated VIEs |  | 2,450 |  |  | 74,034 |  |  | N/A | |  | 2,375 |  |  | 49,016 |  |  | N/A |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Other land option agreements |  | 24,542 |  |  | 278,566 |  |  | N/A |  |  | 23,799 |  |  | 246,658 |  |  | N/A |  |
| Total | $ | 27,067 |  | $ | 355,428 |  | $ | 2,900 |  | $ | 26,574 |  | $ | 313,574 |  | $ | 18,300 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Unconsolidated VIEs represent land option agreements that were not consolidated because we were not the primary beneficiary. Other land option agreements were not considered VIEs.

In addition to the deposits presented in the table above, our exposure to loss related to our land and lot option contracts consisted of capitalized pre-acquisition costs of $3.7 million and $3.6 million as of September 30, 2017 and December 31, 2016, respectively. These pre-acquisition costs were included in real estate inventories as land under development on our consolidated balance sheets.

1. **Goodwill and Other Intangible Assets**

As of September 30, 2017 and December 31, 2016, $139.3 million of goodwill is included in goodwill and other intangible assets, net on each of the consolidated balance sheets. The Company's goodwill balance is included in the TRI Pointe Homes reporting segment in Note 2, *Segment Information*.

We have two intangible assets as of September 30, 2017, comprised of an existing trade name from the acquisition of Maracay Homes in 2006, which has a 20 year useful life, and a TRI Pointe Homes trade name resulting from the acquisition of Weyerhaeuser Real Estate Company (“WRECO”) in 2014, which has an indefinite useful life.

Goodwill and other intangible assets consisted of the following (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **September 30, 2017** | | |  |  |  |  |  |  | **December 31, 2016** | | |  |  |  |
|  |  |  | |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |
|  |  | **Gross** | |  | **Accumulated** | |  | **Net** | |  | **Gross** | |  | **Accumulated** | |  | **Net** |  |
|  |  | **Carrying** | |  |  | **Carrying** | |  | **Carrying** | |  |  | **Carrying** |  |
|  |  | **Amount** |  |  | **Amortization** |  |  | **Amount** |  |  | **Amount** |  |  | **Amortization** |  |  | **Amount** |  |
| Goodwill | $ | 139,304 |  | $ | — | | $ | 139,304 |  | $ | 139,304 |  | $ | — | | $ | 139,304 |  |
| Trade names |  | 27,979 |  |  | (6,189) |  |  | 21,790 |  |  | 27,979 |  |  | (5,788) |  |  | 22,191 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total | $ | 167,283 |  | $ | (6,189) |  | $ | 161,094 |  | $ | 167,283 |  | $ | (5,788) |  | $ | 161,495 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | - 15 - |  |  |  |  |  |  |  |  |  |  |  |  |  |

The remaining useful life of our amortizing intangible asset related to the Maracay Homes trade name was 8.4 and 9.2 years as of September 30, 2017 and December 31, 2016, respectively. Amortization expense related to this intangible asset was $134,000 for each of the three-month periods ended September 30, 2017 and 2016, respectively, and $401,000 for each of the nine-month periods ended September 30, 2017 and 2016, respectively. Amortization of this intangible was charged to sales and marketing expense. Our $17.3 million indefinite life intangible asset related to the TRI Pointe Homes trade name is not amortizing. All trade names are evaluated for impairment on an annual basis or more frequently if indicators of impairment exist.

Expected amortization of our intangible asset related to Maracay Homes for the remainder of 2017, the next four years and thereafter is (in thousands):

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Remainder of 2017 | |  | $ | |  |  | 133 |  |
| 2018 |  |  |  |  |  |  | 534 |  |
|  |  |  |  |  |  |  |  |  |
| 2019 |  |  |  |  |  |  | 534 |  |
| 2020 |  |  |  |  |  |  | 534 |  |
|  |  |  |  |  |  |  |  |  |
| 2021 |  |  |  |  |  |  | 534 |  |
| Thereafter |  |  |  |  |  |  | 2,221 |  |
|  |  |  |  |  |  |  |  |  |
| Total |  |  | $ | |  |  | 4,490 |  |
| **9.** | **Other Assets** |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Other assets consisted of the following (in thousands): | |  |  |  |  |  |  |  |
|  |  |  | **September 30, 2017** | | |  | **December 31, 2016** |  |
| Prepaid expenses |  | $ | 19,117 | |  | $ | 24,495 |  |
| Refundable fees and other deposits | |  | 18,921 | |  |  | 17,731 |  |
|  | |  |  | |  |  |  |  |
| Development rights, held for future use or sale | |  | 2,569 | |  |  | 2,569 |  |
| Deferred loan costs - unsecured revolving credit facility | |  | 3,655 | |  |  | 2,101 |  |
|  | |  |  | |  |  |  |  |
| Operating properties and equipment, net | |  | 10,696 | |  |  | 10,884 |  |
| Income tax receivable | |  | 1,181 | |  |  | — |  |
|  |  |  |  | |  |  |  |  |
| Other |  |  | 2,153 | |  |  | 2,812 |  |
| Total |  | $ | 58,292 | |  | $ | 60,592 |  |
| **10.** | **Accrued Expenses and Other Liabilities** |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Accrued expenses and other liabilities consisted of the following (in thousands): | |  |  |  |  |  |  |  |
|  |  |  | **September 30, 2017** | | |  | **December 31, 2016** |  |
| Accrued payroll and related costs | | $ | 26,133 | |  | $ | 33,761 |  |
| Warranty reserves (Note 13) | |  | 80,922 | |  |  | 83,135 |  |
|  | |  |  | |  |  |  |  |
| Estimated cost for completion of real estate inventories | |  | 84,793 | |  |  | 59,531 |  |
| Customer deposits | |  | 28,039 | |  |  | 13,437 |  |
|  | |  |  | |  |  |  |  |
| Income tax liability to Weyerhaeuser (Note 16) | |  | 7,200 | |  |  | 8,589 |  |
| Accrued income taxes payable | |  | 10,978 | |  |  | 1,200 |  |
|  | |  |  | |  |  |  |  |
| Liability for uncertain tax positions (Note 16) | |  | 1,416 | |  |  | — |  |
| Accrued interest |  |  | 22,599 | |  |  | 11,570 |  |
|  | |  |  | |  |  |  |  |
| Other tax liability | |  | 36,657 | |  |  | 34,961 |  |
| Other |  |  | 17,750 | |  |  | 17,661 |  |
|  |  |  |  | |  |  |  |  |
| Total |  | $ | 316,487 | |  | $ | 263,845 |  |
|  | - 16 - |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |

1. **Senior Notes, Unsecured Revolving Credit Facility and Seller Financed Loans**

***Senior Notes***

The Senior Notes consisted of the following (in thousands):

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **September 30, 2017** | |  | **December 31, 2016** |
| 4.375% | Senior Notes due June 15, 2019 | $ | 450,000 |  | $ | 450,000 |
| 4.875% | Senior Notes due July 1, 2021 |  | 300,000 |  |  | 300,000 |
|  |  |  |  |  |  |  |
| 5.875% | Senior Notes due June 15, 2024 |  | 450,000 |  |  | 450,000 |
| 5.250% | Senior Notes due June 1, 2027 |  | 300,000 |  |  | — |
|  | |  |  |  |  |  |
| Discount and deferred loan costs | |  | (30,442) |  |  | (31,693) |
| Total |  | $ | 1,469,558 |  | $ | 1,168,307 |
|  |  |  |  |  |  |  |

In June 2017, TRI Pointe Group issued $300 million aggregate principal amount of 5.250% Senior Notes due 2027 (the "2027 Notes") at 100.00% of their aggregate principal amount. Net proceeds of this issuance were $296.3 million, after debt issuance costs and discounts. The 2027 Notes mature on June 1, 2027 and interest is paid semiannually in arrears on June 1 and December 1 of each year until maturity, beginning on December 1, 2017.

In May 2016, TRI Pointe Group issued $300 million aggregate principal amount of 4.875% Senior Notes due 2021 (the "2021 Notes") at 99.44% of their aggregate principal amount. Net proceeds of this issuance were $293.9 million, after debt issuance costs and discounts. The 2021 Notes mature on July 1, 2021 and interest is paid semiannually in arrears on January 1 and July 1.

TRI Pointe Group and its 100% owned subsidiary TRI Pointe Homes, Inc. ("TRI Pointe Homes") are co-issuers of the 4.375% Senior Notes due 2019 (the "2019 Notes") and the 5.875% Senior Notes due 2024 (the "2024 Notes"). The 2019 Notes were issued at 98.89% of their aggregate principal amount and the 2024 Notes were issued at 98.15% of their aggregate principal amount. The net proceeds from the offering were $861.3 million, after debt issuance costs and discounts. The 2019 Notes and 2024 Notes mature on June 15, 2019 and June 15, 2024, respectively. Interest is payable semiannually in arrears on June 15 and December 15.

As of September 30, 2017, no principal has been paid on the 2019 Notes, 2021 Notes, 2024 Notes and 2027 Notes (together, the "Senior Notes"), and there was $21.1 million of capitalized debt financing costs, included in senior notes, net on our consolidated balance sheet, related to the Senior Notes that will amortize over the lives of the Senior Notes. Accrued interest related to the Senior Notes was $22.1 million and $10.7 million as of September 30, 2017 and December 31, 2016, respectively.

***Unsecured Revolving Credit Facility***

Unsecured revolving credit facility consisted of the following (in thousands):

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **September 30, 2017** | |  | **December 31, 2016** |
| Unsecured revolving credit facility | $ | 200,000 |  | $ | 200,000 |
|  |  |  |  |  |  |

On June 20, 2017, the Company modified its existing unsecured revolving credit facility (the “Credit Facility”) to extend the maturity date by two years to May 18, 2021, while decreasing the total commitments under the Credit Facility to $600 million from $625 million. In addition, the Credit Facility was modified to give the Company the option to make offers to the lenders to extend the maturity date of the facility in twelve-month increments, subject to the satisfaction of certain conditions. The Credit Facility contains a sublimit of $75 million for letters of credit. The Company may borrow under the Credit Facility in the ordinary course of business to fund its operations, including its land acquisition, land development and homebuilding activities. Borrowings under the Credit Facility will be governed by, among other things, a borrowing base. Interest rates on borrowings under the Credit Facility will be based on either a daily Eurocurrency base rate or a Eurocurrency rate, in either case, plus a spread ranging from 1.25% to 2.00%, depending on the Company’s leverage ratio. As of September 30, 2017, the outstanding balance under the Credit Facility was $200.0 million with an interest rate of 2.99% per annum and there was $392.2 million of availability after considering the borrowing base provisions and outstanding letters of

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credit. As of September 30, 2017 there was $3.7 million of capitalized debt financing costs, included in other assets on our consolidated balance sheet, related to the Credit Facility that will amortize over the life of the Credit Facility, maturing on May 18, 2021. Accrued interest related to the Credit Facility was $505,000 and $658,000 as of September 30, 2017 and December 31, 2016, respectively.

At September 30, 2017 we had outstanding letters of credit of $7.8 million. These letters of credit were issued to secure various financial obligations. We believe it is not probable that any outstanding letters of credit will be drawn upon.

***Seller Financed Loans***

Seller financed loans consisted of the following (in thousands):

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **September 30, 2017** |  |  | **December 31, 2016** |  |
| Seller financed loans | $ | — $ | | | 13,726 |  |
| Accrued interest on a seller financed loan outstanding as of December 31, 2016 was $519,000. |  |  |  |  |  |  |
|  |  |  |  |  |  |

***Interest Incurred***

During the three-month periods ended September 30, 2017 and 2016, the Company incurred interest of $22.9 million and $18.6 million, respectively, related to all debt during the period. Included in interest incurred was amortization of deferred financing and Senior Note discount costs of $2.0

million and $1.8 million for the three months ended September 30, 2017 and 2016, respectively. During the nine-month periods ended September 30, 2017 and 2016, the Company incurred interest of $61.7 million and $50.0 million, respectively, related to all debt during the period. Included in interest incurred was amortization of deferred financing and Senior Notes discount costs of $5.6 million and $4.7 million for the nine months ended September 30, 2017 and 2016, respectively. Accrued interest related to all outstanding debt at September 30, 2017 and December 31, 2016 was $22.6 million and $11.6 million, respectively.

***Covenant Requirements***

The Senior Notes contain covenants that restrict our ability to, among other things, create liens or other encumbrances, enter into sale and leaseback transactions, or merge or sell all or substantially all of our assets. These limitations are subject to a number of qualifications and exceptions.

Under the Credit Facility, the Company is required to comply with certain financial covenants, including but not limited to (i) a minimum consolidated tangible net worth; (ii) a maximum total leverage ratio; and (iii) a minimum interest coverage ratio.

The Company was in compliance with all applicable financial covenants as of September 30, 2017 and December 31, 2016.

1. **Fair Value Disclosures**

***Fair Value Measurements***

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

* Level 1—Quoted prices for identical instruments in active markets
* Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are inactive; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets at measurement date
* Level 3—Valuations derived from techniques where one or more significant inputs or significant value drivers are unobservable in active markets at measurement date
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***Fair Value of Financial Instruments***

A summary of assets and liabilities at September 30, 2017 and December 31, 2016, related to our financial instruments, measured at fair value on a recurring basis, is set forth below (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **September 30, 2017** | | | |  |  | **December 31, 2016** | | | |
|  | **Hierarchy** |  |  | **Book Value** |  |  | **Fair Value** |  |  | **Book Value** |  |  | **Fair Value** |
| Senior Notes (1) | Level 2 | | $ | 1,490,706 |  | $ | 1,558,500 |  | $ | 1,189,180 |  | $ | 1,219,125 |
| Unsecured revolving credit facility (2) | Level 2 | | $ | 200,000 |  | $ | 195,058 |  | $ | 200,000 |  | $ | 177,410 |
| Seller financed loan (3) | Level 2 | | $ | — | | $ | — | | $ | 13,726 |  | $ | 13,189 |
| \_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. The book value of the Senior Notes is net of discounts, excluding deferred loan costs of $21.1 million and $20.9 million as of September 30, 2017 and December 31, 2016, respectively. The estimated fair value of the Senior Notes at September 30, 2017 and December 31, 2016 is based on quoted market prices.
2. The estimated fair value of the Credit Facility at September 30, 2017 and December 31, 2016 is based on a treasury curve analysis.
3. The estimated fair value of the seller financed loan at December 31, 2016 is based on a treasury curve analysis.

At September 30, 2017 and December 31, 2016, the carrying value of cash and cash equivalents and receivables approximated fair value.

***Fair Value of Nonfinancial Assets***

Nonfinancial assets include items such as real estate inventories and long-lived assets that are measured at fair value on a nonrecurring basis when events and circumstances indicating the carrying value is not recoverable. The following table presents impairment charges and the remaining net fair value for nonfinancial assets that were measured during the periods presented (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Nine Months Ended September 30, 2017** | | | |  |  | **Year Ended December 31, 2016** | | | |  |
|  |  | **Impairment** | |  | **Fair Value** | |  | **Impairment** | | | **Fair Value** |  |
|  |  |  | **Net of** | |  | **Net of** |  |
|  |  | **Charge** |  |  | **Impairment** |  |  | **Charge** |  |  | **Impairment** |  |
| Real estate inventories (1) | $ | 267 |  | $ | 1,574 |  | $ | — $ | | | — |  |
| \_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |

1. Fair value of real estate inventories, net of impairment charges represents only those assets whose carrying values were adjusted to fair value in the respective periods presented. The fair value of these real estate inventories impaired was determined based on an analysis of future undiscounted net cash flows. In the case of lots for sale, fair value was determined based on recent land and lot sales for similar assets.
2. **Commitments and Contingencies**

***Legal Matters***

Lawsuits, claims and proceedings have been and may be instituted or asserted against us in the normal course of business, including actions brought on behalf of various classes of claimants. We are also subject to local, state and federal laws and regulations related to land development activities, house construction standards, sales practices, employment practices, environmental protection and financial services. As a result, we are subject to periodic examinations or inquiry by agencies administering these laws and regulations.

We record a reserve for potential legal claims and regulatory matters when they are probable of occurring and a potential loss is reasonably estimable. We accrue for these matters based on facts and circumstances specific to each matter and revise these estimates when necessary. In view of the inherent difficulty of predicting outcomes of legal claims and related contingencies, we generally cannot predict their ultimate resolution, related timing or eventual loss. Accordingly, it is possible that the ultimate outcome of any matter, if in excess of a related accrual or if no accrual was made, could be material to our financial statements. For matters as to which the Company believes a loss is probable and reasonably estimable, we had legal reserves of $100,000 and $225,000 as of September 30, 2017 and December 31, 2016, respectively.

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On April 3, 2017, Pardee Homes was named as a defendant in a lawsuit filed in San Diego County Superior Court by Scripps Health (“Scripps”) related to the April 1989 sale by Pardee Homes of real property located in Carmel Valley, California to Scripps pursuant to a purchase agreement dated December 18, 1987 (as amended, the “Purchase Agreement”). In March 2003, Scripps contacted Pardee Homes and alleged Pardee Homes had breached a covenant in the Purchase Agreement by failing to record a restriction against the development of the surrounding property then owned by Pardee Homes for medical office use. In November 2003, the parties entered into a tolling agreement, pursuant to which the parties agreed to toll any applicable statutes of limitation from November 3, 2003 until the expiration of the agreement. The tolling agreement did not revive any cause of action already time barred by a statute of limitation as of November 3, 2003. The tolling agreement was terminated as of February 21, 2017. Pardee Homes became an indirect, wholly owned subsidiary of TRI Pointe on July 7, 2014 in connection with TRI Pointe’s acquisition of WRECO.

We intend to vigorously defend the action, and intend to continue challenging Scripps' claims. Although we cannot predict or determine the timing or final outcome of the lawsuit or the effect that any adverse findings or determinations may have on us, we believe Scripps' claims against Pardee Homes are without merit and that this dispute will not have a material impact on our business, liquidity, financial condition and results of operations. An unfavorable determination could result in the payment by us of monetary damages, which could be significant. The complaint does not indicate the amount of relief sought, and an estimate of possible loss or range of loss cannot presently be made with respect to this matter. No reserve with respect to this matter has been recorded on our consolidated financial statements.

***Warranty***

Warranty reserves are accrued as home deliveries occur. Our warranty reserves on homes delivered will vary based on product type and geographic area and also depending on state and local laws. The warranty reserve is included in accrued expenses and other liabilities on our consolidated balance sheets and represents expected future costs based on our historical experience over previous years. Estimated warranty costs are charged to cost of home sales in the period in which the related home sales revenue is recognized.

We maintain general liability insurance designed to protect us against a portion of our risk of loss from warranty and construction defect-related claims. We also generally require our subcontractors and design professionals to indemnify us for liabilities arising from their work, subject to various limitations. However, such indemnity is significantly limited with respect to certain subcontractors that are added to our general liability insurance policy.

Our warranty reserve and related estimated insurance recoveries are based on actuarial analysis that uses our historical claim and expense data, as well as industry data to estimate these overall costs and related recoveries. Key assumptions used in developing these estimates include claim frequencies, severities and resolution patterns, which can occur over an extended period of time. These estimates are subject to variability due to the length of time between the delivery of a home to a homebuyer and when a warranty or construction defect claim is made, and the ultimate resolution of such claim; uncertainties regarding such claims relative to our markets and the types of product we build; and legal or regulatory actions and/or interpretations, among other factors. Due to the degree of judgment involved and the potential for variability in these underlying assumptions, our actual future costs could differ from those estimated. There can be no assurance that the terms and limitations of the limited warranty will be effective against claims made by homebuyers, that we will be able to renew our insurance coverage or renew it at reasonable rates, that we will not be liable for damages, cost of repairs, and/or the expense of litigation surrounding possible construction defects, soil subsidence or building related claims or that claims will not arise out of uninsurable events or circumstances not covered by insurance and not subject to effective indemnification agreements with certain subcontractors.

We also record expected recoveries from insurance carriers based on actual insurance claims made and actuarially determined amounts that depend on various factors, including the above-described reserve estimates, our insurance policy coverage limits for the applicable policy years and historical recovery rates. Because of the inherent uncertainty and variability in these assumptions, our actual insurance recoveries could differ significantly from amounts currently estimated. Outstanding warranty insurance receivables were $45.9 million and $46.9 million as of September 30, 2017 and December 31, 2016, respectively. Warranty insurance receivables are recorded in receivables on the accompanying consolidated balance sheet.

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Warranty reserve activity consisted of the following (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended September 30,** | | | | |  | **Nine Months Ended September 30,** | | | |  |
|  |  | **2017** |  |  | **2016** |  |  | **2017** |  |  | **2016** |  |
| Warranty reserves, beginning of period(1) | $ | 80,128 |  | $ | 45,272 |  | $ | 83,135 |  | $ | 45,948 |  |
| Warranty reserves accrued |  | 4,448 |  |  | 3,329 |  |  | 10,122 |  |  | 8,373 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjustments to pre-existing reserves |  | 400 |  |  | 200 |  |  | 1,021 |  |  | 460 |  |
| Warranty expenditures |  | (4,054) |  |  | (3,136) |  |  | (13,356) |  |  | (9,116) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Warranty reserves, end of period | $ | 80,922 |  | $ | 45,665 |  | $ | 80,922 |  | $ | 45,665 |  |
| \_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |

1. Included in the 2017 opening balance is approximately $38.0 million of additional warranty liabilities estimated to be covered by our insurance policies that were adjusted to present the warranty reserves and related estimated warranty insurance receivable on a gross basis at December 31, 2016. Of the $38.0 million, approximately $36.5 million related to prior year estimated warranty insurance recoveries.

***Performance Bonds***

We obtain surety bonds in the normal course of business to ensure completion of certain infrastructure improvements of our projects. As of September 30, 2017 and December 31, 2016, the Company had outstanding surety bonds totaling $544.3 million and $449.6 million, respectively. The beneficiaries of the bonds are various municipalities.

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1. **Stock-Based Compensation**

***2013 Long-Term Incentive Plan***

The Company’s stock compensation plan, the 2013 Long-Term Incentive Plan (the “2013 Incentive Plan”), was adopted by TRI Pointe in January 2013 and amended, with the approval of our stockholders, in 2014 and 2015. In addition, our board of directors amended the 2013 Incentive Plan in 2014 to prohibit repricing (other than in connection with any equity restructuring or any change in capitalization) of outstanding options or stock appreciation rights without stockholder approval. The 2013 Incentive Plan provides for the grant of equity-based awards, including options to purchase shares of common stock, stock appreciation rights, bonus stock, restricted stock, restricted stock units and performance awards. The 2013 Incentive Plan will automatically expire on the tenth anniversary of its effective date. Our board of directors may terminate or amend the 2013 Incentive Plan at any time, subject to any requirement of stockholder approval required by applicable law, rule or regulation.

As amended, the number of shares of our common stock that may be issued under the 2013 Incentive Plan is 11,727,833 shares. To the extent that shares of our common stock subject to an outstanding option, stock appreciation right, stock award or performance award granted under the 2013 Incentive Plan are not issued or delivered by reason of the expiration, termination, cancellation or forfeiture of such award or the settlement of such award in cash, then such shares of our common stock generally shall again be available under the 2013 Incentive Plan. As of September 30, 2017, there were 6,207,889 shares available for future grant under the 2013 Incentive Plan.

***Converted Awards***

On July 16, 2014, the Company filed a registration statement on Form S-8 (Registration No. 333-197461) to register 4,105,953 shares of common stock related to converted equity awards issued in connection with the Company's acquisition of WRECO. The converted awards have the same terms and conditions as the prior equity awards except that all performance share units were surrendered in exchange for time-vesting restricted stock units without any performance-based vesting conditions or requirements and the exercise price of each converted stock option is equal to the original exercise price divided by an exchange ratio of 2.1107, rounded down to the nearest whole number of shares of common stock. There will be no future grants under the WRECO equity incentive plans.

The following table presents compensation expense recognized related to all stock-based awards (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended September 30,** | | | | | |  | **Nine Months Ended September 30,** | | | |
|  | **2017** |  |  |  | **2016** |  |  | **2017** |  |  | **2016** |
| Total stock-based compensation | $ | 3,887 |  | $ | 3,285 |  | $ | 11,631 |  | $ | 9,648 |
|  |  |  |  |  |  |  |  |  |  |  |  |

Stock-based compensation is charged to general and administrative expense on the accompanying consolidated statements of operations. As of September 30, 2017, total unrecognized stock-based compensation related to all stock-based awards was $21.3 million and the weighted average term over which the expense was expected to be recognized was 1.7 years.

***Summary of Stock Option Activity***

The following table presents a summary of stock option awards for the nine months ended September 30, 2017:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Weighted** | | **Weighted** | |  | **Aggregate** |  |
|  |  |  |  |  | **Average** | | **Average** | |  |  |
|  |  |  |  |  | **Exercise** | | **Remaining** | |  | **Intrinsic** |  |
|  |  | **Options** |  |  | **Price** | | **Contractual** | |  | **Value** |  |
|  |  |  | **Per Share** |  | **Life** |  |  | **(in thousands)** |  |
| Options outstanding at December 31, 2016 | 2,971,370 | |  | $ | 13.12 |  | 4.4 |  | $ | 1,568 |  |
| Granted |  | — | |  | — | | — | |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Exercised | (318,419) | |  |  | 10.34 |  | — | |  | — |  |
| Forfeited | (686,720) | |  |  | 14.16 |  | — | |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Options outstanding at September 30, 2017 |  | 1,966,231 |  |  | 13.44 |  | 5.0 |  |  | 2,322 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Options exercisable at September 30, 2017 | 1,851,395 | |  |  | 13.39 |  | 4.9 |  |  | 2,322 |  |
|  | - 22 - |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |

The intrinsic value of each stock option award outstanding or exercisable is the difference between the fair market value of the Company’s common stock at the end of the period and the exercise price of each stock option award to the extent it is considered “in-the-money”. A stock option award is considered to be “in-the-money” if the fair market value of the Company’s stock is greater than the exercise price of the stock option award. The aggregate intrinsic value of options outstanding and options exercisable represents the value that would have been received by the holders of stock option awards had they exercised their stock option award on the last trading day of the period and sold the underlying shares at the closing price on that day.

***Summary of Restricted Stock Unit Activity***

The following table presents a summary of restricted stock units (“RSUs”) for the nine months ended September 30, 2017:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Weighted** | |  | **Aggregate** |  |
|  | **Restricted** | |  | **Average** | |  |  |
|  |  | **Grant Date** | |  | **Intrinsic** |  |
|  | **Stock** | |  | **Fair Value** | |  | **Value** |  |
|  | **Units** | |  | **Per Share** | |  | **(in thousands)** |  |
| Nonvested RSUs at December 31, 2016 | 3,412,719 |  | $ | 9.77 |  | $ | 39,178 |  |
| Granted | 1,670,936 |  |  | 11.00 |  |  | 22,508 |  |
|  |  |  |  |  |  |  |  |  |
| Vested | (714,612) |  |  | 12.34 |  |  | — |  |
| Forfeited | (40,362) |  |  | 11.68 |  |  | — |  |
|  |  |  |  |  |  |  |  |  |
| Nonvested RSUs at September 30, 2017 | 4,328,681 |  |  | 9.80 |  |  | 58,307 |  |
|  |  |  |  |  |  |  |  |  |

On March 1, 2016, the Company granted an aggregate of 1,120,677 time-vested RSUs to employees and officers. The RSUs granted vest in equal installments annually on the anniversary of the grant date over a three year period. The fair value of each RSU granted on March 1, 2016 was measured using a price of $10.49 per share, which was the closing stock price on the date of grant. Each award will be expensed on a straight-line basis over the vesting period.

On March 1, 2016, the Company granted 297,426, 285,986 and 125,834 performance-based RSUs to the Company’s Chief Executive Officer, President, and Chief Financial Officer, respectively. The vesting, if at all, of these performance-based RSUs may range from 0% to 100% and will be based on the Company’s percentage attainment of specified threshold, target and maximum performance goals. The percentage of these performance-based RSUs that vest will be determined by comparing the Company’s total stockholder return (“TSR”) to the TSRs of a group of peer homebuilding companies. The performance period for these performance-based RSUs is January 1, 2016 to December 31, 2018. These performance-based RSUs will not vest if the Company’s total stockholder return from January 1, 2016 to December 31, 2018 is not a positive number, provided that the executive will thereafter become vested in the award units, or portion thereof, that would have otherwise vested on December 31, 2018 if on any day after December 31, 2018 and on or before December 31, 2020, the Company’s total stockholder return is greater than zero and the executive is employed by the Company on that date. If the performance-based RSUs have not vested on or before December 31, 2020, such performance-based RSUs shall be cancelled and forfeited for no consideration. The fair value of these performance-based RSUs was determined to be $4.76 per share based on a Monte Carlo simulation. Each award will be expensed over the requisite service period.

On June 6, 2016, the Company granted an aggregate of 74,466 RSUs to the non-employee members of its board of directors. On March 27, 2017, 21,276 of these RSUs vested in their entirety and on May 25, 2017, 53,190 of these RSUs vested in their entirety. The fair value of each RSU granted on June 6, 2016 was measured using a price of $11.75 per share, which was the closing stock price on the date of grant. Each award was expensed on a straight-line basis over the vesting period.

On February 27, 2017, the Company granted an aggregate of 990,279 time-vested RSUs to employees and officers. The RSUs granted vest in equal installments annually on the anniversary of the grant date over a three year period. The fair value of each RSU granted on February 27, 2017 was measured using a price of $12.10 per share, which was the closing stock price on the date of grant. Each award will be expensed on a straight-line basis over the vesting period.

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On February 27, 2017, the Company granted 257,851, 247,933 and 119,008 performance-based RSUs to the Company’s Chief Executive Officer, President, and Chief Financial Officer, respectively. These performance-based RSUs are allocated in equal parts to two separate performance metrics: (i) TSR, with vesting based on the Company’s TSR relative to its peer-group homebuilders; and (ii) earnings per share. The vesting, if at all, of these performance-based RSUs may range from 0% to 100% and will be based on the Company’s percentage attainment of specified threshold, target and maximum performance goals. The performance period for these performance-based RSUs is January 1, 2017 to December 31, 2019. The fair value of the performance-based RSUs related to the TSR metric was determined to be $6.16 per share based on a Monte Carlo simulation. The fair value of the performance-based RSUs related to the earnings per share goal was measured using a price of $12.10 per share, which was the closing stock price on the date of grant. Each award will be expensed over the requisite service period.

On May 30, 2017, the Company granted an aggregate of 55,865 RSUs to the non-employee members of its board of directors. These RSUs vest in their entirety on the day immediately prior to the Company's 2018 Annual Meeting of Stockholders. The fair value of each RSU granted on May 30, 2017 was measured using a price of $12.53 per share, which was the closing stock price on the date of grant. Each award will be expensed on a straight-line basis over the vesting period.

As RSUs vest for employees, a portion of the shares awarded is generally withheld to cover employee tax withholdings. As a result, the number of RSUs vested and the number of shares of TRI Pointe common stock issued will differ.

1. **Stock Repurchase Program**

On February 23, 2017, our board of directors approved a new stock repurchase program, authorizing the repurchase of our common stock with an aggregate value of up to $100 million through March 31, 2018 (the “2017 Repurchase Program”). On July 25, 2017 our board of directors authorized the repurchase of up to an additional $50 million of our common stock under the 2017 Repurchase Program, increasing the aggregate authorization from $100 million to $150 million. Purchases of common stock pursuant to the 2017 Repurchase Program may be made in open market transactions effected through a broker-dealer at prevailing market prices, in block trades, or by other means in accordance with federal securities laws, including pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. We are not obligated under the 2017 Repurchase Program to repurchase any specific number or amount of shares of common stock, and we may modify, suspend or discontinue the program at any time. Our management will determine the timing and amount of repurchase in its discretion based on a variety of factors, such as the market price of our common stock, corporate requirements, general market economic conditions and legal requirements. For the three months ended September 30, 2017, we repurchased and retired 975,700 shares of our common stock under the 2017 Repurchase Program at a weighted average price of $12.83 per share for a total cost of $12.5 million. For the nine months ended September 30, 2017, we repurchased and retired 8,994,705 shares of our common stock under the 2017 Repurchase Program at a weighted average price of $12.48 per share for a total cost of $112.2 million.

1. **Income Taxes**

We account for income taxes in accordance with ASC Topic 740, *Income Taxes* (“ASC 740”), which requires an asset and liability approach for measuring deferred taxes based on temporary differences between the financial statements and tax bases of assets and liabilities using enacted tax rates for the years in which taxes are expected to be paid or recovered. Each quarter we assess our deferred tax asset to determine whether all or any portion of the asset is more likely than not unrealizable under ASC 740. We are required to establish a valuation allowance for any portion of the asset we conclude is more likely than not to be unrealizable. Our assessment considers, among other things, the nature, frequency and severity of our current and cumulative losses, forecasts of our future taxable income, the duration of statutory carryforward periods and tax planning alternatives.

We had net deferred tax assets of $108.7 million and $123.2 million as of September 30, 2017 and December 31, 2016, respectively. We had a valuation allowance related to those net deferred tax assets of $323,000 as of both September 30, 2017 and December 31, 2016. The Company will continue to evaluate both positive and negative evidence in determining the need for a valuation allowance against its deferred tax assets. Changes in positive and negative evidence, including differences between the Company's future operating results and the estimates utilized in the determination of the valuation allowance, could result in changes in the Company's estimate of the valuation allowance against its deferred tax assets. The accounting for deferred taxes is based upon estimates of future results. Differences between the anticipated and actual outcomes of these future results could have a material impact on the Company's consolidated results of operations or financial position. Also, changes in existing federal and state tax laws and tax rates could affect future tax results and the valuation allowance against the Company's deferred tax assets.

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TRI Pointe has certain liabilities with Weyerhaeuser Company (“Weyerhaeuser”) related to a tax sharing agreement. As of September 30, 2017 and December 31, 2016, we had an income tax liability to Weyerhaeuser of $7.2 million and $8.6 million, respectively. The income tax liability to Weyerhaeuser is recorded in accrued expenses and other liabilities on the accompanying consolidated balance sheets.

Our provision for income taxes totaled $46.1 million and $20.3 million for the three months ended September 30, 2017 and 2016, respectively. Our provision for income taxes totaled $69.8 million and $77.7 million for the nine months ended September 30, 2017 and 2016, respectively. The Company classifies any interest and penalties related to income taxes assessed by jurisdiction as part of income tax expense. The Company had $1.4 million of uncertain tax positions recorded as of September 30, 2017. The Company had no uncertain tax positions as of December 31, 2016. The Company has not been assessed interest or penalties by any major tax jurisdictions related to prior years.

1. **Related Party Transactions**

We had no related party transactions for the nine months ended September 30, 2017.

In May of 2016, we entered into an agreement with an affiliate of Starwood Capital Group, a then greater than 5% holder of our common stock, to acquire 52 lots located in Azusa, California, for an aggregate purchase price of $18.4 million. In October of 2016, we acquired 27 of these lots for a purchase price of $9.6 million. Our former Chairman of the Board is also the Chairman and Chief Executive Officer of Starwood Capital Group. This acquisition was approved by our independent directors. In August of 2016, we entered into an agreement with an affiliate of Starwood Capital Group to purchase 257 lots located in Castle Rock, Colorado, for an aggregate purchase price of approximately $8.6 million. In October of 2016, we acquired 126 of these lots for a purchase price of $4.2 million. This acquisition was approved by our independent directors. As of March 27, 2017, Starwood Capital Group is no longer a related party.

In 2016, we acquired 93 lots located in Dublin, California, for a purchase price of approximately $25.5 million from an affiliate of BlackRock, Inc., a greater than 5% holder of our common stock. This acquisition was approved by the vote of our independent directors in accordance with the requirements of the Company’s Code of Business Conduct and Ethics.

1. **Supplemental Disclosure to Consolidated Statements of Cash Flows**

The following are supplemental disclosures to the consolidated statements of cash flows (in thousands):

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Nine Months Ended September 30,** | | | |
|  |  | **2017** |  |  | **2016** |
| Supplemental disclosure of cash flow information: |  |  |  |  |  |
| Cash paid during the period for: |  |  |  |  |  |
|  |  |  |  |  |  |
| Interest, net of amounts capitalized of $61,669 and $50,030 (Note 5) | $ | — | | $ | — |
| Income taxes | $ | 44,784 |  | $ | 89,269 |
|  |  |  |  |  |  |
| Supplemental disclosures of noncash activities: |  |  |  |  |  |
| Amortization of senior note discount capitalized to real estate inventory | $ | 1,525 |  | $ | 1,321 |
|  |  |  |  |  |  |
| Amortization of deferred loan costs capitalized to real estate inventory | $ | 4,104 |  | $ | 2,865 |
| Effect of net consolidation and de-consolidation of variable interest entities: |  |  |  |  |  |
|  |  |  |  |  |  |
| Decrease in consolidated real estate inventory not owned | $ | (14,660) |  | $ | 3,484 |
| Decrease in noncontrolling interests | $ | 14,660 |  | $ | (3,484) |
| - 25 - |  |  |  |  |  |

1. **Supplemental Guarantor Information**

***2021 Notes and 2027 Notes***

On May 26, 2016, TRI Pointe Group issued the 2021 Notes. On June 5, 2017, TRI Pointe Group issued the 2027 Notes. All of TRI Pointe Group’s 100% owned subsidiaries that are guarantors (each a “Guarantor” and, collectively, the “Guarantors”) of the Credit Facility, including TRI Pointe Homes, are party to supplemental indentures pursuant to which they jointly and severally guarantee TRI Pointe Group’s obligations with respect to the 2021 Notes and the 2027 Notes. Each Guarantor of the 2021 Notes and the 2027 Notes is 100% owned by TRI Pointe Group, and all guarantees are full and unconditional, subject to customary exceptions pursuant to the indentures governing the 2021 Notes and the 2027 Notes, as described in the following paragraph. All of our non-Guarantor subsidiaries have nominal assets and operations and are considered minor, as defined in Rule 3-10(h) of Regulation S-X. In addition, TRI Pointe Group has no independent assets or operations, as defined in Rule 3-10(h) of Regulation S-X. There are no significant restrictions upon the ability of TRI Pointe Group or any Guarantor to obtain funds from any of their respective wholly owned subsidiaries by dividend or loan. None of the assets of our subsidiaries represent restricted net assets pursuant to Rule 4-08(e)(3) of Regulation S-X.

A Guarantor of the 2021 Notes and the 2027 Notes shall be released from all of its obligations under its guarantee if (i) all of the assets of the Guarantor have been sold; (ii) all of the equity interests of the Guarantor held by TRI Pointe Group or a subsidiary thereof have been sold; (iii) the Guarantor merges with and into TRI Pointe Group or another Guarantor, with TRI Pointe Group or such other Guarantor surviving the merger; (iv) the Guarantor is designated “unrestricted” for covenant purposes; (v) the Guarantor ceases to guarantee any indebtedness of TRI Pointe Group or any other Guarantor which gave rise to such Guarantor guaranteeing the 2021 Notes or the 2027 Notes; (vi) TRI Pointe Group exercises its legal defeasance or covenant defeasance options; or (vii) all obligations under the applicable supplemental indenture are discharged.

***2019 Notes and 2024 Notes***

TRI Pointe Group and TRI Pointe Homes are co-issuers of the 2019 Notes and the 2024 Notes. All of the Guarantors (other than TRI Pointe Homes) have entered into supplemental indentures pursuant to which they jointly and severally guarantee the obligations of TRI Pointe Group and TRI Pointe Homes with respect to the 2019 Notes and the 2024 Notes. Each Guarantor of the 2019 Notes and the 2024 Notes is 100% owned by TRI Pointe Group and TRI Pointe Homes, and all guarantees are full and unconditional, subject to customary exceptions pursuant to the indentures governing the 2019 Notes and the 2024 Notes, as described below.

A Guarantor of the 2019 Notes and the 2024 Notes shall be released from all of its obligations under its guarantee if (i) all of the assets of the Guarantor have been sold; (ii) all of the equity interests of the Guarantor held by TRI Pointe or a subsidiary thereof have been sold; (iii) the Guarantor merges with and into TRI Pointe or another Guarantor, with TRI Pointe or such other Guarantor surviving the merger; (iv) the Guarantor is designated “unrestricted” for covenant purposes; (v) the Guarantor ceases to guarantee any indebtedness of TRI Pointe or any other Guarantor which gave rise to such Guarantor guaranteeing the 2019 Notes and 2024 Notes; (vi) TRI Pointe exercises its legal defeasance or covenant defeasance options; or (vii) all obligations under the applicable indenture are discharged.

Presented below are the condensed consolidating balance sheets at September 30, 2017 and December 31, 2016, condensed consolidating statements of operations for the three and nine months ended September 30, 2017 and 2016 and condensed consolidating statement of cash flows for the nine months ended September 30, 2017 and 2016. Because TRI Pointe’s non-Guarantor subsidiaries are considered minor, as defined in Rule 3-10(h) of Regulation S-X, the non-Guarantor subsidiaries’ information is not separately presented in the tables below, but is included with the Guarantors. Additionally, because TRI Pointe Group has no independent assets or operations, as defined in Rule 3-10(h) of Regulation S-X, the condensed consolidated financial information of TRI Pointe Group and TRI Pointe Homes, the co-issuers of the 2019 Notes and 2024 Notes, is presented together in the column titled “Issuer”.

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**Condensed Consolidating Balance Sheet (in thousands):**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **September 30, 2017** | | | | |  |  |  |
|  |  |  |  |  |  | **Guarantor** | |  | **Consolidating** | |  | **Consolidated** |  |
|  |  |  | **Issuer** | |  |  |  | **TRI Pointe** |  |
|  |  |  |  | **Subsidiaries** | |  | **Adjustments** | |  | **Group, Inc.** |  |
| **Assets** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash and cash equivalents | $ | | 86,046 |  | $ | 76,350 |  | $ | — | | $ | 162,396 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Receivables |  |  | 29,963 |  |  | 54,620 |  |  | — | |  | 84,583 |  |
| Intercompany receivables |  |  | 940,894 |  |  | — | |  | (940,894) |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Real estate inventories |  |  | 981,813 |  |  | 2,321,608 |  |  | — | |  | 3,303,421 |  |
| Investments in unconsolidated entities |  |  | — | |  | 17,616 |  |  | — | |  | 17,616 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Goodwill and other intangible assets, net |  |  | 156,604 |  |  | 4,490 |  |  | — | |  | 161,094 |  |
| Investments in subsidiaries |  |  | 1,388,227 |  |  | — | |  | (1,388,227) |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Deferred tax assets, net |  |  | 15,644 |  |  | 93,020 |  |  | — | |  | 108,664 |  |
| Other assets |  |  | 7,953 |  |  | 50,339 |  |  | — | |  | 58,292 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total Assets | $ | | 3,607,144 |  | $ | 2,618,043 |  | $ | (2,329,121) |  | $ | 3,896,066 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Accounts payable | $ | | 8,561 |  | $ | 55,477 |  | $ | — | | $ | 64,038 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Intercompany payables |  |  | — | |  | 940,894 |  |  | (940,894) |  |  | — |  |
| Accrued expenses and other liabilities |  |  | 86,596 |  |  | 229,891 |  |  | — | |  | 316,487 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Unsecured revolving credit facility |  |  | 200,000 |  |  | — | |  | — | |  | 200,000 |  |
| Senior notes |  |  | 1,469,558 |  |  | — | |  | — | |  | 1,469,558 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total Liabilities |  |  | 1,764,715 |  |  | 1,226,262 |  |  | (940,894) |  |  | 2,050,083 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Equity** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total stockholders’ equity |  |  | 1,842,429 |  |  | 1,388,227 |  |  | (1,388,227) |  |  | 1,842,429 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Noncontrolling interests |  |  | — | |  | 3,554 |  |  | — | |  | 3,554 |  |
| Total Equity |  |  | 1,842,429 |  |  | 1,391,781 |  |  | (1,388,227) |  |  | 1,845,983 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total Liabilities and Equity | $ | | 3,607,144 |  | $ | 2,618,043 |  | $ | (2,329,121) |  | $ | 3,896,066 |  |
|  | - 27 - |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

**Condensed Consolidating Balance Sheet (in thousands):**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **December 31, 2016** | | | | |  |  |  |
|  |  |  |  |  | **Guarantor** | |  | **Consolidating** | |  | **Consolidated** |  |
|  |  | **Issuer** | |  |  |  | **TRI Pointe** |  |
|  |  |  | **Subsidiaries** | |  | **Adjustments** | |  | **Group, Inc.** |  |
| **Assets** |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash and cash equivalents | $ | 141,568 |  | $ | 67,089 |  | $ | — | | $ | 208,657 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Receivables |  | 26,692 |  |  | 55,808 |  |  | — | |  | 82,500 |  |
| Intercompany receivables |  | 775,321 |  |  | — | |  | (775,321) |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Real estate inventories |  | 868,088 |  |  | 2,042,539 |  |  | — | |  | 2,910,627 |  |
| Investments in unconsolidated entities |  | — | |  | 17,546 |  |  | — | |  | 17,546 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Goodwill and other intangible assets, net |  | 156,604 |  |  | 4,891 |  |  | — | |  | 161,495 |  |
| Investments in subsidiaries |  | 1,285,295 |  |  | — | |  | (1,285,295) |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Deferred tax assets, net |  | 15,644 |  |  | 107,579 |  |  | — | |  | 123,223 |  |
| Other assets |  | 11,401 |  |  | 49,191 |  |  | — | |  | 60,592 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total Assets | $ | 3,280,613 |  | $ | 2,344,643 |  | $ | (2,060,616) |  | $ | 3,564,640 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |  |  |  |  |  |  |  |
| Accounts payable | $ | 20,637 |  | $ | 49,615 |  | $ | — | | $ | 70,252 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Intercompany payables |  | — | |  | 775,321 |  |  | (775,321) |  |  | — |  |
| Accrued expenses and other liabilities |  | 48,496 |  |  | 215,349 |  |  | — | |  | 263,845 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Unsecured revolving credit facility |  | 200,000 |  |  | — | |  | — | |  | 200,000 |  |
| Seller financed loans |  | 13,726 |  |  | — | |  | — | |  | 13,726 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Senior notes |  | 1,168,307 |  |  | — | |  | — | |  | 1,168,307 |  |
| Total Liabilities |  | 1,451,166 |  |  | 1,040,285 |  |  | (775,321) |  |  | 1,716,130 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Equity** |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total stockholders’ equity |  | 1,829,447 |  |  | 1,285,295 |  |  | (1,285,295) |  |  | 1,829,447 |  |
| Noncontrolling interests |  | — | |  | 19,063 |  |  | — | |  | 19,063 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total Equity |  | 1,829,447 |  |  | 1,304,358 |  |  | (1,285,295) |  |  | 1,848,510 |  |
| Total Liabilities and Equity | $ | 3,280,613 |  | $ | 2,344,643 |  | $ | (2,060,616) |  | $ | 3,564,640 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

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**Condensed Consolidating Statement of Operations (in thousands):**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Three Months Ended September 30, 2017** | | | | | |  |  |  |
|  |  |  |  |  | **Guarantor** | |  | **Consolidating** | |  | **Consolidated** |  |
|  |  | **Issuer** | |  |  |  | **TRI Pointe** |  |
|  |  |  | **Subsidiaries** | |  | **Adjustments** | |  | **Group, Inc.** |  |
| **Homebuilding:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Home sales revenue | $ | 239,110 |  | $ | 409,528 |  | $ | — | | $ | 648,638 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Land and lot sales revenue |  | — | |  | 68,218 |  |  | — | |  | 68,218 |  |
| Other operations revenue |  | — | |  | 584 |  |  | — | |  | 584 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total revenues |  | 239,110 |  |  | 478,330 |  |  | — | |  | 717,440 |  |
| Cost of home sales |  | 200,384 |  |  | 321,534 |  |  | — | |  | 521,918 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cost of land and lot sales |  | — | |  | 12,001 |  |  | — | |  | 12,001 |  |
| Other operations expense |  | — | |  | 575 |  |  | — | |  | 575 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Sales and marketing |  | 8,816 |  |  | 24,363 |  |  | — | |  | 33,179 |  |
| General and administrative |  | 15,560 |  |  | 17,396 |  |  | — | |  | 32,956 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Homebuilding income from operations |  | 14,350 |  |  | 102,461 |  |  | — | |  | 116,811 |  |
| Equity in income of unconsolidated entities |  | — | |  | — | |  | — | |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Other income, net |  | 15 |  |  | 11 |  |  | — | |  | 26 |  |
| Homebuilding income before income taxes |  | 14,365 |  |  | 102,472 |  |  | — |  |  | 116,837 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Financial Services:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Revenues |  | — | |  | 295 |  |  | — | |  | 295 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Expenses |  | — | |  | 82 |  |  | — | |  | 82 |  |
| Equity in income of unconsolidated entities |  | — | |  | 1,351 |  |  | — | |  | 1,351 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Financial services income before income taxes |  | — | |  | 1,564 |  |  | — | |  | 1,564 |  |
| **Income before income taxes** |  | 14,365 |  |  | 104,036 |  |  | — |  |  | 118,401 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Equity of net income of subsidiaries |  | 59,725 |  |  | — | |  | (59,725) |  |  | — |  |
| Provision for income taxes |  | (1,826) |  |  | (44,286) |  |  | — | |  | (46,112) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income |  | 72,264 |  |  | 59,750 |  |  | (59,725) |  |  | 72,289 |  |
| Net income attributable to noncontrolling interests |  | — | |  | (25) |  |  | — | |  | (25) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income available to common stockholders | $ | 72,264 |  | $ | 59,725 |  | $ | (59,725) |  | $ | 72,264 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

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**Condensed Consolidating Statement of Operations (in thousands):**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Three Months Ended September 30, 2016** | | | | | |  |  |  |
|  |  |  |  |  | **Guarantor** | |  | **Consolidating** | |  | **Consolidated** |  |
|  |  | **Issuer** | |  |  |  | **TRI Pointe** |  |
|  |  |  | **Subsidiaries** | |  | **Adjustments** | |  | **Group, Inc.** |  |
| **Homebuilding:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Home sales revenue | $ | 167,769 |  | $ | 410,884 |  | $ | — | | $ | 578,653 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Land and lot sales revenue |  | — | |  | 2,535 |  |  | — | |  | 2,535 |  |
| Other operations revenue |  | — | |  | 606 |  |  | — | |  | 606 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total revenues |  | 167,769 |  |  | 414,025 |  |  | — | |  | 581,794 |  |
| Cost of home sales |  | 144,217 |  |  | 318,106 |  |  | — | |  | 462,323 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cost of land and lot sales |  | — | |  | 1,734 |  |  | — | |  | 1,734 |  |
| Other operations expense |  | — | |  | 575 |  |  | — | |  | 575 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Sales and marketing |  | 6,598 |  |  | 25,254 |  |  | — | |  | 31,852 |  |
| General and administrative |  | 15,192 |  |  | 16,086 |  |  | — | |  | 31,278 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Homebuilding income from operations |  | 1,762 |  |  | 52,270 |  |  | — | |  | 54,032 |  |
| Equity in loss of unconsolidated entities |  | — | |  | (20) |  |  | — | |  | (20) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Other (loss) income, net |  | (345) |  |  | 366 |  |  | — | |  | 21 |  |
| Homebuilding income before income taxes |  | 1,417 |  |  | 52,616 |  |  | — |  |  | 54,033 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Financial Services:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Revenues |  | — | |  | 235 |  |  | — | |  | 235 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Expenses |  | — | |  | 72 |  |  | — | |  | 72 |  |
| Equity in income of unconsolidated entities |  | — | |  | 1,247 |  |  | — | |  | 1,247 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Financial services income before income taxes |  | — | |  | 1,410 |  |  | — | |  | 1,410 |  |
| **Income before income taxes** |  | 1,417 |  |  | 54,026 |  |  | — |  |  | 55,443 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Equity of net income of subsidiaries |  | 34,639 |  |  | — | |  | (34,639) |  |  | — |  |
| Provision for income taxes |  | (1,222) |  |  | (19,076) |  |  | — | |  | (20,298) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income |  | 34,834 |  |  | 34,950 |  |  | (34,639) |  |  | 35,145 |  |
| Net income attributable to noncontrolling interests |  | — | |  | (311) |  |  | — | |  | (311) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income available to common stockholders | $ | 34,834 |  | $ | 34,639 |  | $ | (34,639) |  | $ | 34,834 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

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**Condensed Consolidating Statement of Operations (in thousands):**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Nine Months Ended September 30, 2017** | | | | | |  |  |  |
|  |  |  |  |  | **Guarantor** | |  | **Consolidating** | |  | **Consolidated** |  |
|  |  | **Issuer** | |  |  |  | **TRI Pointe** |  |
|  |  |  | **Subsidiaries** | |  | **Adjustments** | |  | **Group, Inc.** |  |
| **Homebuilding:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Home sales revenue | $ | 524,159 |  | $ | 1,085,299 |  | $ | — | | $ | 1,609,458 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Land and lot sales revenue |  | — | |  | 69,661 |  |  | — | |  | 69,661 |  |
| Other operations revenue |  | — | |  | 1,752 |  |  | — | |  | 1,752 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total revenues |  | 524,159 |  |  | 1,156,712 |  |  | — | |  | 1,680,871 |  |
| Cost of home sales |  | 445,501 |  |  | 849,062 |  |  | — | |  | 1,294,563 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cost of land and lot sales |  | — | |  | 13,299 |  |  | — | |  | 13,299 |  |
| Other operations expense |  | — | |  | 1,726 |  |  | — | |  | 1,726 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Sales and marketing |  | 22,265 |  |  | 69,944 |  |  | — | |  | 92,209 |  |
| General and administrative |  | 49,113 |  |  | 52,180 |  |  | — | |  | 101,293 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Homebuilding income from operations |  | 7,280 |  |  | 170,501 |  |  | — | |  | 177,781 |  |
| Equity in income of unconsolidated entities |  | — | |  | 1,646 |  |  | — | |  | 1,646 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Other income, net |  | 33 |  |  | 114 |  |  | — | |  | 147 |  |
| Homebuilding income before income taxes |  | 7,313 |  |  | 172,261 |  |  | — |  |  | 179,574 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Financial Services:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Revenues |  | — | |  | 881 |  |  | — | |  | 881 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Expenses |  | — | |  | 233 |  |  | — | |  | 233 |  |
| Equity in income of unconsolidated entities |  | — | |  | 2,911 |  |  | — | |  | 2,911 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Financial services income before income taxes |  | — | |  | 3,559 |  |  | — | |  | 3,559 |  |
| **Income before income taxes** |  | 7,313 |  |  | 175,820 |  |  | — |  |  | 183,133 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Equity of net income of subsidiaries |  | 103,177 |  |  | — | |  | (103,177) |  |  | — |  |
| Benefit (provision) for income taxes |  | 2,681 |  |  | (72,505) |  |  |  |  |  | (69,824) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income |  | 113,171 |  |  | 103,315 |  |  | (103,177) |  |  | 113,309 |  |
| Net income attributable to noncontrolling interests |  | — | |  | (138) |  |  | — | |  | (138) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income available to common stockholders | $ | 113,171 |  | $ | 103,177 |  | $ | (103,177) |  | $ | 113,171 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

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**Condensed Consolidating Statement of Operations (in thousands):**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Nine Months Ended September 30, 2016** | | | | | |  |  |  |
|  |  |  |  |  | **Guarantor** | |  | **Consolidating** | |  | **Consolidated** |  |
|  |  | **Issuer** | |  |  |  | **TRI Pointe** |  |
|  |  |  | **Subsidiaries** | |  | **Adjustments** | |  | **Group, Inc.** |  |
| **Homebuilding:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Home sales revenue | $ | 452,553 |  | $ | 1,106,080 |  | $ | — | | $ | 1,558,633 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Land and lot sales revenue |  | — | |  | 70,204 |  |  | — | |  | 70,204 |  |
| Other operations revenue |  | — | |  | 1,790 |  |  | — | |  | 1,790 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total revenues |  | 452,553 |  |  | 1,178,074 |  |  | — | |  | 1,630,627 |  |
| Cost of home sales |  | 383,574 |  |  | 835,986 |  |  | — | |  | 1,219,560 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cost of land and lot sales |  | — | |  | 16,973 |  |  | — | |  | 16,973 |  |
| Other operations expense |  | — | |  | 1,724 |  |  | — | |  | 1,724 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Sales and marketing |  | 19,683 |  |  | 70,938 |  |  | — | |  | 90,621 |  |
| General and administrative |  | 42,984 |  |  | 47,309 |  |  | — | |  | 90,293 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Homebuilding income from operations |  | 6,312 |  |  | 205,144 |  |  | — | |  | 211,456 |  |
| Equity in income of unconsolidated entities |  | — | |  | 181 |  |  | — | |  | 181 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Other income, net |  | 157 |  |  | 130 |  |  | — | |  | 287 |  |
| Homebuilding income before income taxes |  | 6,469 |  |  | 205,455 |  |  | — |  |  | 211,924 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Financial Services:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Revenues |  | — | |  | 762 |  |  | — | |  | 762 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Expenses |  | — | |  | 183 |  |  | — | |  | 183 |  |
| Equity in income of unconsolidated entities |  | — | |  | 3,246 |  |  | — | |  | 3,246 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Financial services income before income taxes |  | — | |  | 3,825 |  |  | — | |  | 3,825 |  |
| **Income before income taxes** |  | 6,469 |  |  | 209,280 |  |  | — |  |  | 215,749 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Equity of net income of subsidiaries |  | 135,024 |  |  | — | |  | (135,024) |  |  | — |  |
| Provision for income taxes |  | (4,183) |  |  | (73,518) |  |  | — | |  | (77,701) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income |  | 137,310 |  |  | 135,762 |  |  | (135,024) |  |  | 138,048 |  |
| Net income attributable to noncontrolling interests |  | — | |  | (738) |  |  | — | |  | (738) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income available to common stockholders | $ | 137,310 |  | $ | 135,024 |  | $ | (135,024) |  | $ | 137,310 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

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**Condensed Consolidating Statement of Cash Flows (in thousands):**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Nine Months Ended September 30, 2017** | | | | | |  |  |  |
|  |  |  |  |  | **Guarantor** | |  | **Consolidating** | |  | **Consolidated** |  |
|  |  | **Issuer** | |  |  |  | **TRI Pointe** |  |
|  |  |  | **Subsidiaries** | |  | **Adjustments** | |  | **Group, Inc.** |  |
| **Cash flows from operating activities** |  |  |  |  |  |  |  |  |  |  |  |  |
| Net cash used in operating activities | $ | (60,816) |  | $ | (149,840) |  | $ | — | | $ | (210,656) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Cash flows from investing activities:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Purchases of property and equipment |  | (1,473) |  |  | (739) |  |  | — | |  | (2,212) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Proceeds from sale of property and equipment |  | — | |  | 6 |  |  | — | |  | 6 |  |
| Investments in unconsolidated entities |  | — | |  | (934) |  |  | — | |  | (934) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Intercompany |  | (161,755) |  |  | — | |  | 161,755 |  |  | — |  |
| Net cash (used in) provided by investing activities |  | (163,228) |  |  | (1,667) |  |  | 161,755 |  |  | (3,140) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Cash flows from financing activities:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Borrowings from debt |  | 500,000 |  |  | — | |  | — | |  | 500,000 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Repayment of debt |  | (213,726) |  |  | — | |  | — | |  | (213,726) |  |
| Debt issuance costs |  | (5,932) |  |  | — | |  | — | |  | (5,932) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Distributions to noncontrolling interests |  | — | |  | (987) |  |  | — | |  | (987) |  |
| Proceeds from issuance of common stock under |  |  |  |  |  |  |  |  |  |  |  |  |
| share-based awards |  | 3,293 |  |  | — | |  | — | |  | 3,293 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Minimum tax withholding paid on behalf of employees for |  |  |  |  |  |  |  |  |  |  |  |  |
| restricted stock units |  | (2,896) |  |  | — | |  | — | |  | (2,896) |  |
| Share repurchases |  | (112,217) |  |  | — | |  | — | |  | (112,217) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Intercompany |  | — | |  | 161,755 |  |  | (161,755) |  |  | — |  |
| Net cash provided by (used in) financing activities |  | 168,522 |  |  | 160,768 |  |  | (161,755) |  |  | 167,535 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net (decrease) increase in cash and cash equivalents |  | (55,522) |  |  | 9,261 |  |  | — | |  | (46,261) |  |
| Cash and cash equivalents - beginning of period |  | 141,568 |  |  | 67,089 |  |  | — | |  | 208,657 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash and cash equivalents - end of period | $ | 86,046 |  | $ | 76,350 |  | $ | — | | $ | 162,396 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

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**Condensed Consolidating Statement of Cash Flows (in thousands):**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Nine Months Ended September 30, 2016** | | | | | |  |  |  |
|  |  |  |  |  | **Guarantor** | |  | **Consolidating** | |  | **Consolidated** |  |
|  |  | **Issuer** | |  |  |  | **TRI Pointe** |  |
|  |  |  | **Subsidiaries** | |  | **Adjustments** | |  | **Group, Inc.** |  |
| **Cash flows from operating activities** |  |  |  |  |  |  |  |  |  |  |  |  |
| Net cash used in operating activities | $ | (186,487) |  | $ | (74,820) |  | $ | — | | $ | (261,307) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Cash flows from investing activities:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Purchases of property and equipment |  | (831) |  |  | (1,225) |  |  | — | |  | (2,056) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Investments in unconsolidated entities |  | — | |  | (32) |  |  | — | |  | (32) |  |
| Intercompany |  | (82,951) |  |  | — | |  | 82,951 |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net cash (used in) provided by investing activities |  | (83,782) |  |  | (1,257) |  |  | 82,951 |  |  | (2,088) |  |
| **Cash flows from financing activities:** |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Borrowings from notes payable |  | 491,069 |  |  | — | |  | — | |  | 491,069 |  |
| Repayment of notes payable |  | (276,426) |  |  | (400) |  |  | — | |  | (276,826) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Debt issuance costs |  | (5,061) |  |  | — | |  | — | |  | (5,061) |  |
| Net repayments of debt held by variable interest entities |  | — | |  | (2,442) |  |  | — | |  | (2,442) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Contributions from noncontrolling interests |  | — | |  | 1,955 |  |  | — | |  | 1,955 |  |
| Distributions to noncontrolling interests |  | — | |  | (5,059) |  |  | — | |  | (5,059) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Proceeds from issuance of common stock under |  |  |  |  |  |  |  |  |  |  |  |  |
| share-based awards |  | 461 |  |  | — | |  | — | |  | 461 |  |
| Minimum tax withholding paid on behalf of employees for restricted stock |  |  |  |  |  |  |  |  |  |  |  |  |
| units |  | (1,359) |  |  | — | |  | — | |  | (1,359) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Share repurchases |  | (25,113) |  |  | — | |  | — | |  | (25,113) |  |
| Intercompany |  | — | |  | 82,951 |  |  | (82,951) |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net cash provided by (used in) financing activities |  | 183,571 |  |  | 77,005 |  |  | (82,951) |  |  | 177,625 |  |
| Net (decrease) increase in cash and cash equivalents |  | (86,698) |  |  | 928 |  |  | — |  |  | (85,770) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash and cash equivalents - beginning of period |  | 147,771 |  |  | 66,714 |  |  | — | |  | 214,485 |  |
| Cash and cash equivalents - end of period | $ | 61,073 |  | $ | 67,642 |  | $ | — |  | $ | 128,715 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

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

**CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains certain statements that are “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements are based on our current intentions, beliefs, expectations and predictions for the future, and you should not place undue reliance on these statements. These statements use forward-looking terminology, are based on various assumptions made by us, and may not be accurate because of risks and uncertainties surrounding the assumptions that are made.

Factors listed in this section*–*as well as other factors not included*–*may cause actual results to differ significantly from the forward-looking statements included in this Quarterly Report on Form 10-Q. There is no guarantee that any of the events anticipated by the forward-looking statements in this Quarterly Report on Form 10-Q will occur, or if any of the events occurs, there is no guarantee what effect it will have on our operations, financial condition, or share price.

We undertake no, and hereby disclaim any, obligation to update or revise any forward-looking statements, unless required by law. However, we reserve the right to make such updates or revisions from time to time by press release, periodic report, or other method of public disclosure without the need for specific reference to this Quarterly Report on Form 10-Q. No such update or revision shall be deemed to indicate that other statements not addressed by such update or revision remain correct or create an obligation to provide any other updates or revisions.

**Forward-Looking Statements**

These forward-looking statements are generally accompanied by words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “goal,” “intend,” “may,” “might,” “plan,” “potential,” “predict,” “project,” “target,” “will,” “would,” or other words that convey the uncertainty of future events or outcomes. These forward-looking statements may include, but are not limited to, statements regarding our strategy, projections and estimates concerning the timing and success of specific projects and our future production, land and lot sales, the outcome of legal proceedings, the anticipated impact of natural disasters on our operations, operational and financial results, including our estimates for growth, financial condition, sales prices, prospects and capital spending.

**Risks, Uncertainties and Assumptions**

The major risks and uncertainties*–*and assumptions that are made*–*that affect our business and may cause actual results to differ from these forward-looking statements include, but are not limited to:

* the effect of general economic conditions, including employment rates, housing starts, interest rate levels, availability of financing for home mortgages and strength of the U.S. dollar;
* market demand for our products, which is related to the strength of the various U.S. business segments and U.S. and international economic conditions;
* levels of competition;
* the successful execution of our internal performance plans, including restructuring and cost reduction initiatives;
* global economic conditions;
* raw material prices;
* oil and other energy prices;
* the effect of weather, including the re-occurrence of drought conditions in California;
* the risk of loss from earthquakes, volcanoes, fires, floods, droughts, windstorms, hurricanes, pest infestations and other natural disasters, and the risk of delays, reduced consumer demand, and shortages and price increases in labor or materials associated with such natural disasters;
* transportation costs;
* federal and state tax policies;
* the effect of land use, environment and other governmental laws and regulations;
* legal proceedings or disputes and the adequacy of reserves;
* risks relating to any unforeseen changes to or effects on liabilities, future capital expenditures, revenues, expenses, earnings, synergies, indebtedness, financial condition, losses and future prospects;
* change in accounting principles;
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* risks related to unauthorized access to our computer systems, theft of our homebuyers’ confidential information or other forms of cyber-attack; and
* other factors described in “Risk Factors.”

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related condensed notes thereto contained elsewhere in this Quarterly Report on Form 10-Q. The information contained in this Quarterly Report on Form 10-Q is not a complete description of our business or the risks associated with an investment in our securities. We urge investors to review and consider carefully the various disclosures made by us in this report and in our other reports filed with the Securities and Exchange Commission (“SEC”), including our Annual Report on Form 10-K for the year ended December 31, 2016 and subsequent reports on Form 8-K, which discuss our business in greater detail. The section entitled “Risk Factors” set forth in Item 1A of our Annual Report on Form 10-K, and similar disclosures in our other SEC filings, discuss some of the important risk factors that may affect our business, results of operations and financial condition. Investors should carefully consider those risks, in addition to the information in this report and in our other filings with the SEC, before deciding to invest in, or maintain an investment in, our common stock.

**Overview and Outlook**

We continue to be encouraged by the strength of the overall U.S. new-home market, which continues to be supported by strong general economic conditions, low unemployment levels, modest wage gains, favorable interest rates, and increasing consumer confidence combined with a limited supply of new and existing homes. We believe demand will continue to be strong across the U.S. in general and in a majority of the markets in which we operate over the next several years. Nevertheless, we continue to see variability from market to market with demand mostly driven by general local economic conditions. In certain markets, price and affordability issues are potentially limiting demand. Additionally, homebuilding activity in many markets continues to be constrained by land and labor availability, as well as fee increases and delays imposed by local municipalities, which we expect will continue to constrict supply. While the limited supply and production deficits have supported price appreciation in many markets, these increases have been partially or sometimes fully offset by increases in labor and material costs and we expect that these construction cost pressures will continue. We believe these demand and supply trends will result in a continued growth trajectory in the homebuilding market, with consumer, job and household formation growth serving as leading indicators of positive demand, offset by certain downward pressures.

The Houston area was severely impacted by Hurricane Harvey, which caused significant flooding and widespread damage to existing homes, commercial buildings, and infrastructure. While our active projects in Houston sustained minimal damage, and the hurricane did not significantly impact our overall results for the three or nine months ended September 30, 2017, we did experience some delivery delays during the third quarter of 2017 as approximately 30 deliveries that would have delivered in 2017 will instead deliver in early 2018. Additionally, our Houston operations, and our consolidated financial statements, could be further impacted in future quarters by, among other things, a decline in homebuyer traffic and net new home orders; land development and home construction delays, resulting in delayed deliveries; and increased costs stemming from general hurricane-related recovery efforts that heighten the demand for, and constrain the supply of, building materials and available labor; and warranty repair claims from our affected homeowners.

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**Consolidated Financial Data (in thousands, except per share amounts):**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended September 30,** | | | | |  | **Nine Months Ended September 30,** | | | |
|  |  | **2017** |  |  | **2016** |  |  | **2017** |  |  | **2016** |
| **Homebuilding:** |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Home sales revenue | $ | 648,638 |  | $ | 578,653 |  | $ | 1,609,458 |  | $ | 1,558,633 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Land and lot sales revenue |  | 68,218 |  |  | 2,535 |  |  | 69,661 |  |  | 70,204 |
| Other operations revenue |  | 584 |  |  | 606 |  |  | 1,752 |  |  | 1,790 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Total revenues |  | 717,440 |  |  | 581,794 |  |  | 1,680,871 |  |  | 1,630,627 |
| Cost of home sales |  | 521,918 |  |  | 462,323 |  |  | 1,294,563 |  |  | 1,219,560 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Cost of land and lot sales |  | 12,001 |  |  | 1,734 |  |  | 13,299 |  |  | 16,973 |
| Other operations expense |  | 575 |  |  | 575 |  |  | 1,726 |  |  | 1,724 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Sales and marketing |  | 33,179 |  |  | 31,852 |  |  | 92,209 |  |  | 90,621 |
| General and administrative |  | 32,956 |  |  | 31,278 |  |  | 101,293 |  |  | 90,293 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Homebuilding income from operations |  | 116,811 |  |  | 54,032 |  |  | 177,781 |  |  | 211,456 |
| Equity in (loss) income of unconsolidated entities |  | — | |  | (20) |  |  | 1,646 |  |  | 181 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Other income, net |  | 26 |  |  | 21 |  |  | 147 |  |  | 287 |
| Homebuilding income before income taxes |  | 116,837 |  |  | 54,033 |  |  | 179,574 |  |  | 211,924 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Financial Services:** |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Revenues |  | 295 |  |  | 235 |  |  | 881 |  |  | 762 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Expenses |  | 82 |  |  | 72 |  |  | 233 |  |  | 183 |
| Equity in income of unconsolidated entities |  | 1,351 |  |  | 1,247 |  |  | 2,911 |  |  | 3,246 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Financial services income before income taxes |  | 1,564 |  |  | 1,410 |  |  | 3,559 |  |  | 3,825 |
| **Income before income taxes** |  | 118,401 |  |  | 55,443 |  |  | 183,133 |  |  | 215,749 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Provision for income taxes |  | (46,112) |  |  | (20,298) |  |  | (69,824) |  |  | (77,701) |
| Net income |  | 72,289 |  |  | 35,145 |  |  | 113,309 |  |  | 138,048 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Net income attributable to noncontrolling interests |  | (25) |  |  | (311) |  |  | (138) |  |  | (738) |
| Net income available to common stockholders | $ | 72,264 |  | $ | 34,834 |  | $ | 113,171 |  | $ | 137,310 |
| Earnings per share |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Basic | $ | 0.48 |  | $ | 0.22 |  | $ | 0.73 |  | $ | 0.85 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Diluted | $ | 0.48 |  | $ | 0.22 |  | $ | 0.73 |  | $ | 0.85 |
|  |  |  |  |  |  |  |  |  |  |  |  |

**Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016 *Net New Home Orders, Average Selling Communities and Monthly Absorption Rates by Segment***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended September 30, 2017** | | | | |  | **Three Months Ended September 30, 2016** | | | | |  |  |  | **Percentage Change** | |  |
|  | **Net New** | | **Average** | | **Monthly** | | **Net New** | | **Average** | | **Monthly** | | **Net New** | | **Average** | | **Monthly** |
|  | **Home** | | **Selling** | | **Absorption** | | **Home** | | **Selling** | | **Absorption** | | **Home** | | **Selling** | | **Absorption** |
|  | **Orders** | | **Communities** | | **Rates** | | **Orders** | | **Communities** | | **Rates** | | **Orders** | | **Communities** | | **Rates** |
| Maracay Homes | 158 |  | 13.5 |  | 3.9 |  | 134 |  | 17.8 |  | 2.5 |  | 18 % |  | (24)% |  | 56 % |
| Pardee Homes | 421 |  | 30.8 |  | 4.6 |  | 283 |  | 22.5 |  | 4.2 |  | 49 % |  | 37 % |  | 10 % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Quadrant Homes | 84 |  | 8.3 |  | 3.4 |  | 49 |  | 7.3 |  | 2.3 |  | 71 % |  | 14 % |  | 48 % |
| Trendmaker Homes | 113 |  | 29.3 |  | 1.3 |  | 130 |  | 29.0 |  | 1.5 |  | (13)% |  | 1 % |  | (13)% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| TRI Pointe Homes | 378 |  | 34.7 |  | 3.6 |  | 239 |  | 28.7 |  | 2.8 |  | 58 % |  | 21 % |  | 29 % |
| Winchester Homes | 114 |  | 13.2 |  | 2.9 |  | 97 |  | 13.7 |  | 2.4 |  | 18 % |  | (4)% |  | 21 % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total | 1,268 |  | 129.8 |  | 3.3 |  | 932 |  | 119.0 |  | 2.6 |  | 36 % |  | 9 % |  | 27 % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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Net new home orders for the three months ended September 30, 2017 increased by 336 orders, or 36%, to 1,268, compared to 932 during the prior year period. The increase in net new home orders was due to a 9% increase in average selling communities and a 27% increase in monthly absorption rates.

Maracay Homes reported an 18% increase in net new home orders driven by a 56% increase in monthly absorption rate as a result of improved market conditions compared to the prior year period. We experienced a 24% decrease in average selling communities due to the timing of community openings and closings compared to the prior year period. Pardee Homes increased net new home orders by 49% due to a 37% increase in average community count and a 10% increase in monthly absorption rate. The increase in monthly absorption rate was driven by strong demand for new community openings, particularly in the San Diego and Los Angeles markets. Net new home orders increased 71% at Quadrant Homes due primarily to a 55% increase in monthly absorption rate, and enhanced by a 14% increase in average selling communities. The increase in monthly absorption rate was the result of our well located communities and continued strong market fundamentals. Trendmaker Homes' net new home orders decreased 13% due to a 13% decrease in monthly absorption rate and a relatively flat average selling community count. The decrease in monthly absorption rate was due in part to the loss of two weeks of selling homes during and after Hurricane Harvey, as well as the continued challenges with the Houston market as a result of the continued economic pressure on oil prices and the related impact on job growth. TRI Pointe Homes’ net new home orders increased 58% due to a 29% increase in monthly absorption rate and a 21% increase in average selling communities. Demand remains strong in the markets in which TRI Pointe Homes builds, as evidenced by a monthly absorption rate of 3.6 homes at average selling prices above the Company average. Winchester Homes experienced an 18% increase in net new home orders largely as a result of a 21% increase in monthly absorption rate, partially offset by a 4% decrease in average selling communities. The increase in monthly absorption rate was due to strong customer demand in some of our larger master plan communities.

***Backlog Units, Dollar Value and Average Sales Price by Segment (dollars in thousands)***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **As of September 30, 2017** | | | | | |  |  |  | **As of September 30, 2016** | | | | | |  |  |  |  | **Percentage Change** | | |  |  |
|  | **Backlog** |  |  |  | **Backlog** | |  | **Average** | | **Backlog** |  |  |  | **Backlog** | |  | **Average** | | **Backlog** | | **Backlog** | | | **Average** |  |
|  |  |  |  | **Dollar** | |  | **Sales** | |  |  |  | **Dollar** | |  | **Sales** | | **Dollar** | | | **Sales** |  |
|  | **Units** |  |  |  | **Value** |  |  | **Price** |  | **Units** |  |  |  | **Value** |  |  | **Price** |  | **Units** |  | **Value** |  |  | **Price** |  |
| Maracay Homes | 305 | $ | | | 154,324 |  | $ | 506 |  | 329 | $ | | | 144,127 |  | $ | 438 |  | (7)% |  | 7% |  |  | 16 % |  |
| Pardee Homes | 646 |  |  |  | 436,376 |  |  | 676 |  | 382 |  |  |  | 182,263 |  |  | 477 |  | 69 % |  | 139% |  |  | 42 % |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Quadrant Homes | 206 |  |  |  | 160,202 |  |  | 778 |  | 130 |  |  |  | 83,467 |  |  | 642 |  | 58 % |  | 92% |  |  | 21 % |  |
| Trendmaker Homes | 213 |  |  |  | 107,968 |  |  | 507 |  | 186 |  |  |  | 98,874 |  |  | 532 |  | 15 % |  | 9% |  |  | (5)% |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| TRI Pointe Homes | 659 |  |  |  | 481,537 |  |  | 731 |  | 495 |  |  |  | 319,823 |  |  | 646 |  | 33 % |  | 51% |  |  | 13 % |  |
| Winchester Homes | 236 |  |  |  | 141,858 |  |  | 601 |  | 189 |  |  |  | 121,617 |  |  | 643 |  | 25 % |  | 17% |  |  | (7)% |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total | 2,265 | $ | | | 1,482,265 |  | $ | 654 |  | 1,711 | $ | | | 950,171 |  | $ | 555 |  | 32 % |  | 56% |  |  | 18 % |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Backlog units reflect the number of homes, net of actual cancellations experienced during the period, for which we have entered into a sales contract with a homebuyer but for which we have not yet delivered the home. Homes in backlog are generally delivered within three to nine months, although we may experience cancellations of sales contracts prior to delivery. Our cancellation rate of homebuyers who contracted to buy a home but did not close escrow (as a percentage of overall orders) decreased to 15% from 17% for the same period in 2016. The dollar value of backlog was approximately $1.5 billion as of September 30, 2017, an increase of $532.1 million, or 56%, compared to $950.2 million as of September 30, 2016. This increase was due to an increase in backlog units of 554, or 32%, to 2,265 as of September 30, 2017, compared to 1,711 as of September 30, 2016 and an 18% increase in the average sales price of homes in backlog to $654,000 as of September 30, 2017, compared to $555,000 as of September 30, 2016.

Maracay Homes’ backlog dollar value increased 7% compared to the prior year due to a 16% increase in average sales price, offset by a 7% decrease in units. The increase in average sales price was due to a product mix shift that included a greater proportion of move-up and luxury product compared to the prior year. Pardee Homes' backlog dollar value increased 139% due to an increase in both backlog units and average selling price. The increase in backlog units was due to the 49% increase in orders during the quarter while the increase in average selling price was due to increased pricing power in our markets and a higher end product mix with higher price points. Quadrant Homes’ backlog dollar value increased 92% as a result of an increase in backlog units and average sales price. The increase in backlog units directly relates to the 71% increase in orders during the quarter and the increase in average sales price was related to a higher mix of homes in backlog from the core Seattle markets of King and Snohomish counties, which have higher price points. Trendmaker Homes' backlog dollar value increased 9% primarily due to a 15% increase in backlog units. TRI Pointe Homes’ backlog dollar value increased 51%

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due to an increase in backlog units and average selling price. The increase in backlog units was the result of a 58% increase in orders for the three months ended September 30, 2017. Winchester Homes’ backlog dollar value increased 17% largely driven by the increase in backlog units as a result of the 18% increase in orders during the quarter.

***New Homes Delivered, Homes Sales Revenue and Average Sales Price by Segment (dollars in thousands)***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended September 30, 2017** | | | | | | |  | **Three Months Ended September 30, 2016** | | | | | | |  |  | **Percentage Change** | | |  |
|  | **New** | |  | **Home** | |  | **Average** | | **New** | |  | **Home** | |  | **Average** | | **New** |  | **Home** | | **Average** |
|  | **Homes** | |  | **Sales** | |  | **Sales** | | **Homes** | |  | **Sales** | |  | **Sales** | | **Homes** |  | **Sales** | | **Sales** |
|  | **Delivered** |  |  | **Revenue** |  |  | **Price** |  | **Delivered** |  |  | **Revenue** |  |  | **Price** |  | **Delivered** |  | **Revenue** |  | **Price** |
| Maracay Homes | 164 |  | $ | 78,166 |  | $ | 477 |  | 165 |  | $ | 68,024 |  | $ | 412 |  | (1)% | 15 % | |  | 16 % |
| Pardee Homes | 328 |  |  | 164,548 |  |  | 502 |  | 302 |  |  | 188,148 |  |  | 623 |  | 9 % | (13)% | |  | (19)% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Quadrant Homes | 79 |  |  | 54,197 |  |  | 686 |  | 90 |  |  | 47,749 |  |  | 531 |  | (12)% | 14 % | |  | 29 % |
| Trendmaker Homes | 104 |  |  | 52,453 |  |  | 504 |  | 121 |  |  | 62,408 |  |  | 516 |  | (14)% | (16)% | |  | (2)% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| TRI Pointe Homes | 332 |  |  | 239,110 |  |  | 720 |  | 260 |  |  | 167,769 |  |  | 645 |  | 28 % | 43 % | |  | 12 % |
| Winchester Homes | 104 |  |  | 60,164 |  |  | 579 |  | 81 |  |  | 44,555 |  |  | 550 |  | 28 % | 35 % | |  | 5 % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total | 1,111 |  | $ | 648,638 |  | $ | 584 |  | 1,019 |  | $ | 578,653 |  | $ | 568 |  | 9 % | 12 % | |  | 3 % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Home sales revenue increased $70.0 million, or 12%, to $648.6 million for the three months ended September 30, 2017. The increase was comprised of (i) $52.2 million related to an increase in homes delivered to 1,111 for the three months ended September 30, 2017 from 1,019 in the prior year period, and

1. a $16,000, or 3%, increase in the average sales price of homes delivered to $584,000 for the three months ended September 30, 2017, from $568,000 in the prior year period.

Maracay Homes had a 15% increase in home sales revenue due to an increase in average sales price and relatively flat new home deliveries. The increase in average sales price was due to a product mix shift that included a greater proportion of move-up and luxury products compared to the prior year. Pardee Homes’ home sales revenue decreased 13% due to a 19% decrease in average sales price, offset by a 9% increase in new homes delivered. The decrease in average sales price was due to a product mix shift that included a greater proportion of entry-level product, specifically in our San Diego market. Quadrant Homes increased home sales revenue by 14% due to a 29% increase in average sales price offset by a 12% decrease in new homes delivered. The increase in average sales price was the result of delivering more units in the core Seattle markets of King and Snohomish counties, which have higher price points. Trendmaker Homes' home sales revenue decreased 16% due to a 14% decrease in new homes delivered and a 2% decrease in average sales price of homes delivered. The decrease was due in part to Hurricane Harvey, which caused significant flooding and widespread damage in Houston, and was responsible for delivery delays during the third quarter of 2017. Approximately 30 deliveries that would have delivered in the third quarter of 2017 will instead deliver in early 2018 at Trendmaker Homes. TRI Pointe Homes had a 43% increase in home sales revenue due to a 28% increase in new homes delivered and a 12% increase in average sales price. The increase in new homes delivered was driven by higher backlog to start the quarter compared to the same prior year period. Home sales revenue increased at Winchester Homes by 35% largely due to an increase in homes delivered as a result of higher backlog to start the quarter compared to the same prior year period.

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***Homebuilding Gross Margins (dollars in thousands)***

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Three Months Ended September 30,** | | | |  |  |  |
|  |  | **2017** |  | **%** |  |  | **2016** |  | **%** |  |
| Home sales revenue | $ | 648,638 | 100.0% | |  | $ | 578,653 | 100.0% | |  |
| Cost of home sales |  | 521,918 | 80.5% | |  |  | 462,323 | 79.9% | |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Homebuilding gross margin |  | 126,720 | 19.5% | |  |  | 116,330 | 20.1% | |  |
| Add: interest in cost of home sales |  | 15,623 | 2.4% | |  |  | 14,385 | 2.5% | |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Add: impairments and lot option abandonments |  | 374 | 0.1% | |  |  | 389 | 0.1% | |  |
| Adjusted homebuilding gross margin(1) | $ | 142,717 |  | 22.0% |  | $ | 131,104 |  | 22.7% |  |
| Homebuilding gross margin percentage |  | 19.5% |  |  |  |  | 20.1% |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Adjusted homebuilding gross margin percentage(1) |  | 22.0% |  |  |  |  | 22.7% |  |  |  |
| \_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |

1. Non-GAAP financial measure (as discussed below).

Our homebuilding gross margin percentage decreased to 19.5% for the three months ended September 30, 2017 as compared to 20.1% for the prior year period. The decrease in gross margin percentage was primarily due to the mix of deliveries from our long-dated California communities, which produce gross margins above the Company average, having less of an impact on our overall gross margin percentage compared to the same period in the prior year. Excluding interest and impairment and lot option abandonments in cost of home sales, adjusted homebuilding gross margin percentage was 22.0% for the three months ended September 30, 2017, compared to 22.7% for the prior year period.

Adjusted homebuilding gross margin is a non-GAAP financial measure. We believe this information is meaningful as it isolates the impact that leverage and noncash charges have on homebuilding gross margin and permits investors to make better comparisons with our competitors, who adjust gross margins in a similar fashion. Because adjusted homebuilding gross margin is not calculated in accordance with GAAP, it may not be comparable to other similarly titled measures of other companies and should not be considered in isolation or as a substitute for, or superior to, financial measures prepared in accordance with GAAP. See the table above reconciling this non-GAAP financial measure to homebuilding gross margin, the nearest GAAP equivalent.

***Land and Lot Gross Margins (dollars in thousands)***

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Three Months Ended September 30,** | | | | |  |
|  |  | **2017** |  | **%** |  |  | **2016** |  | **%** |
| Land and lot sales revenue | $ | 68,218 |  | 100.0% |  | $ | 2,535 |  | 100.0% |
| Cost of land and lot sales |  | 12,001 |  | 17.6% |  |  | 1,734 |  | 68.4% |
|  |  |  |  |  |  |  |  |  |  |
| Land and lot gross margin | $ | 56,217 |  | 82.4% |  | $ | 801 |  | 31.6% |
|  |  |  |  |  |  |  |  |  |  |

Our land and lot gross margin percentage increased to 82.4% for the three months ended September 30, 2017 as compared to 31.6% for the prior year period. During the quarter ended September 30, 2017, our Pardee Homes reporting segment sold a parcel consisting of 69 homebuilding lots, located in the Pacific Highlands Ranch community in San Diego, California, representing $66.8 million in land and lot sales revenue and $56.1 million in land and lot gross margin. This sale resulted in significant gross margin due to the low land basis of the Pacific Highlands Ranch community, which was acquired in 1981. Land and lot sales gross margin percentage can vary significantly due to the type of land and its related cost basis. Additionally, we expect land and lot sales revenue to vary significantly between reporting periods based on our business decisions to maintain or decrease our land ownership in various markets. Our land and lot sale decisions will be based on a variety of factors, including, without limitation, prevailing market conditions.

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***Sales and Marketing, General and Administrative Expense (dollars in thousands)***

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended September 30,** | | | | | **As a Percentage of** | | |  |  |
|  |  | **Home Sales Revenue** | | |  |  |
|  |  | **2017** |  |  | **2016** |  | **2017** |  |  | **2016** |  |
| Sales and marketing | $ | 33,179 |  | $ | 31,852 |  | 5.1% |  |  | 5.5% |  |
| General and administrative (G&A) |  | 32,956 |  |  | 31,278 |  | 5.1% |  |  | 5.4% |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Total sales and marketing and G&A | $ | 66,135 |  | $ | 63,130 |  | 10.2% |  |  | 10.9% |  |
|  |  |  |  |  |  |  |  |  |  |  |  |

Sales and marketing expense as a percentage of home sales revenue decreased to 5.1% for the three months ended September 30, 2017, compared to 5.5% for the prior year period. The decrease was the result of higher operating leverage on the fixed components of sales and marketing expenses as a result of the 12% increase in homes sales revenue.

General and administrative (“G&A”) expenses as a percentage of home sales revenue decreased to 5.1% of home sales revenue for the three months ended September 30, 2017 compared to 5.4% for the prior year period as a result of higher operating leverage due to the 12% increase in home sales revenue. G&A expenses increased to $33.0 million for the three months ended September 30, 2017 compared to $31.3 million in the prior year period primarily as a result of additional headcount to support future growth, along with our continued expansion into Austin, Texas and Los Angeles, California and the recently announced expansion into the Sacramento, California market. G&A expense was positively impacted for the three months ended September 30, 2017 by a decrease in the income tax liability to Weyerhaeuser of $1.4 million related to the expiration of stock options whose benefit would have been passed on to Weyerhaeuser under our tax sharing agreement.

Total sales and marketing and G&A (“SG&A”) as a percentage of home sales revenue decreased to 10.2% for the three months ended September 30, 2017, compared to 10.9% in the prior year period. Total SG&A expense increased $3.0 million, to $66.1 million for the three months ended September 30, 2017 from $63.1 million in the prior year period.

***Interest***

Interest, which was incurred principally to finance land acquisitions, land development and home construction, totaled $22.9 million and $18.6 million for the three months ended September 30, 2017 and 2016, respectively. All interest incurred in both periods was capitalized. The increase in interest incurred during the three months ended September 30, 2017 as compared to the prior year period was primarily attributable to an increase in our debt balance and our weighted average interest rate as a result of the issuance in June of 2017 of our $300 million aggregate principal amount of 5.250% Senior Notes due 2027 ("the 2027 Notes").

***Income Tax***

For the three months ended September 30, 2017, we recorded a tax provision of $46.1 million based on an effective tax rate of 38.9% For the three months ended September 30, 2016, we recorded a tax provision of $20.3 million based on an effective tax rate of 36.6%. The increase in the current year income tax rate is due to the expiration of federal energy tax credits in 2017 as well as a negative impact on the tax rate from the expiration of non-qualified stock options. The increase in provision for income taxes is due to an increase in income before income taxes of $63.0 million to $118.4 million for the three months ended September 30, 2017, compared to $55.4 million for the prior year period.

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**Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016 *Net New Home Orders, Average Selling Communities and Monthly Absorption Rates by Segment***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Nine Months Ended September 30, 2017** | | | | |  | **Nine Months Ended September 30, 2016** | | | | |  |  |  | **Percentage Change** | |  |
|  | **Net New** | | **Average** | | **Monthly** | | **Net New** | | **Average** | | **Monthly** | | **Net New** | | **Average** | | **Monthly** |
|  | **Home** | | **Selling** | | **Absorption** | | **Home** | | **Selling** | | **Absorption** | | **Home** | | **Selling** | | **Absorption** |
|  | **Orders** | | **Communities** | | **Rates** | | **Orders** | | **Communities** | | **Rates** | | **Orders** | | **Communities** | | **Rates** |
| Maracay Homes | 504 |  | 15.3 |  | 3.7 |  | 526 |  | 18.1 |  | 3.2 |  | (4)% |  | (15)% |  | 16 % |
| Pardee Homes | 1,282 |  | 29.3 |  | 4.9 |  | 936 |  | 22.8 |  | 4.6 |  | 37 % |  | 29 % |  | 7 % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Quadrant Homes | 311 |  | 7.6 |  | 4.5 |  | 274 |  | 8.5 |  | 3.6 |  | 14 % |  | (11)% |  | 25 % |
| Trendmaker Homes | 393 |  | 30.9 |  | 1.4 |  | 385 |  | 26.8 |  | 1.6 |  | 2 % |  | 15 % |  | (13)% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| TRI Pointe Homes | 1,144 |  | 31.9 |  | 4.0 |  | 883 |  | 27.3 |  | 3.6 |  | 30 % |  | 17 % |  | 11 % |
| Winchester Homes | 378 |  | 12.4 |  | 3.4 |  | 335 |  | 13.5 |  | 2.8 |  | 13 % |  | (8)% |  | 21 % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total | 4,012 |  | 127.4 |  | 3.5 |  | 3,339 |  | 117.0 |  | 3.2 |  | 20 % |  | 9 % |  | 9 % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Net new home orders for the nine months ended September 30, 2017 increased by 673 orders or 20% to 4,012, compared to 3,339 during the prior year period. The increase in net new home orders was due to a 9% increase in average selling communities and a 9% increase in monthly absorption rates.

Maracay Homes had a 4% decrease in net new home orders driven by a 15% decrease in average selling communities due to the timing of community openings and closings compared to the prior year period. This was offset by a 16% increase in monthly absorption rate as a result of improved market conditions compared to the prior year period. Pardee Homes increased net new home orders by 37% largely due to a 29% increase in average selling communities and a 7% increase in absorption rate to 4.9 orders per community per month. Net new home orders increased 14% at Quadrant Homes mainly due to a 25% increase in monthly absorption rate due to continued strong market fundamentals. This was offset by an 11% decrease in average selling communities due to the timing of new community openings and closings. Trendmaker Homes increased net new home orders by 2% primarily based on a 15% increase in average selling communities. Trendmaker Homes’ monthly absorption rate declined compared to the prior year period as a result of the loss of two weeks of selling due to the impact of Hurricane Harvey and the continued softer market conditions due to the decrease in oil prices and the related impact on job growth in the Houston market. TRI Pointe Homes’ net new home orders increased 30% due to a 17% increase in average selling communities and an 11% increase in monthly absorption rate. Demand remains strong in the markets in which TRI Pointe Homes builds, as evidenced by a monthly absorption rate of 4.0 homes at average selling prices above the Company average. Winchester Homes experienced a 13% increase in net new home orders due to a 21% increase in monthly absorption rate, partially offset by an 8% decrease in average selling communities. The increase in monthly absorption rate was due to strong customer demand in some of our larger master plan communities.

***New Homes Delivered, Homes Sales Revenue and Average Sales Price by Segment (dollars in thousands)***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Nine Months Ended September 30, 2017** | | | | | | |  | **Nine Months Ended September 30, 2016** | | | | | | |  |  | **Percentage Change** | | |  |
|  | **New** | |  | **Home** | |  | **Average** | | **New** | |  | **Home** | |  | **Average** | | **New** |  | **Home** | | **Average** |
|  | **Homes** | |  | **Sales** | |  | **Sales** | | **Homes** | |  | **Sales** | |  | **Sales** | | **Homes** |  | **Sales** | | **Sales** |
|  | **Delivered** |  |  | **Revenue** |  |  | **Price** |  | **Delivered** |  |  | **Revenue** |  |  | **Price** |  | **Delivered** |  | **Revenue** |  | **Price** |
| Maracay Homes | 447 |  | $ | 204,981 |  | $ | 459 |  | 400 |  | $ | 161,318 |  | $ | 403 |  | 12 % | 27 % | |  | 14 % |
| Pardee Homes | 896 |  |  | 428,624 |  |  | 478 |  | 828 |  |  | 485,683 |  |  | 587 |  | 8 % | (12)% | |  | (19)% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Quadrant Homes | 206 |  |  | 133,747 |  |  | 649 |  | 287 |  |  | 147,935 |  |  | 515 |  | (28)% | (10)% | |  | 26 % |
| Trendmaker Homes | 343 |  |  | 169,189 |  |  | 493 |  | 335 |  |  | 169,423 |  |  | 506 |  | 2 % |  | — % | | (3)% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| TRI Pointe Homes | 783 |  |  | 524,159 |  |  | 669 |  | 678 |  |  | 452,553 |  |  | 667 |  | 15 % | 16 % | |  | — % |
| Winchester Homes | 265 |  |  | 148,758 |  |  | 561 |  | 256 |  |  | 141,721 |  |  | 554 |  | 4 % | 5 % | |  | 1 % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total | 2,940 |  |  | 1,609,458 |  | $ | 547 |  | 2,784 |  | $ | 1,558,633 |  | $ | 560 |  | 6 % | 3 % | |  | (2)% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Home sales revenue increased $50.8 million, or 3%, to $1.6 billion for the nine months ended September 30, 2017. The increase was comprised of:

1. $87.3 million related to a 156, or 6%, increase in homes delivered to 2,940 for the nine months
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ended September 30, 2017, from 2,784 in the prior year period, offset by (ii) a decrease of $36.5 million related to the decrease in average sales price of homes delivered by 2%, or $13,000, to $547,000 for the nine months ended September 30, 2017, from $560,000 in the prior year period.

Maracay Homes had a 27% increase in home sales revenue due to increases in both new homes delivered and average sales price. The increase in new homes delivered was due to starting the year with more homes in backlog. The increase in average sales price was driven by a product mix shift that included a greater proportion of move-up and luxury product compared to the prior year period. Pardee Homes’ home sales revenue decreased by 12% largely due to a 19% decrease in average sales price. The decrease in average sales price was due to a product mix shift that included a greater proportion of entry level homes delivered, specifically in our San Diego market. This difference in product mix was due to the timing of deliveries compared to the prior year period.

Quadrant Homes decreased home sales revenue by 10%, a result of a 28% decrease in new homes delivered, partially offset by a 26% increase in average sales price. The large decrease in new homes delivered was due to starting the year with a lower number of backlog units compared to the prior year period as a result of lower average selling communities. The large increase in average sales price was the result of delivering more homes in the core Seattle markets of King and Snohomish counties, which have higher price points. Home sales revenue was flat at Trendmaker Homes due to relatively flat new homes delivered and average sales price of homes delivered. Hurricane Harvey, which caused significant flooding and widespread damage in Houston, was responsible for delivery delays during the third quarter of 2017 at Trendmaker Homes. Approximately 30 deliveries that would have delivered in the third quarter of 2017 will instead deliver in early 2018 at Trendmaker Homes. Home sales revenue at TRI Pointe Homes increased by 16% due to a 15% increase in new homes delivered. Home sales revenue increased at Winchester Homes by 5% mainly due to a 4% increase in new homes delivered due to the timing of deliveries.

***Homebuilding Gross Margins (dollars in thousands)***

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Nine Months Ended September 30,** | | | | |  |
|  |  | **2017** |  | **%** |  |  | **2016** |  | **%** |
| Home sales revenue | $ | 1,609,458 |  | 100.0% |  | $ | 1,558,633 |  | 100.0% |
| Cost of home sales |  | 1,294,563 |  | 80.4% |  |  | 1,219,560 |  | 78.2% |
|  |  |  |  |  |  |  |  |  |  |
| Homebuilding gross margin |  | 314,895 |  | 19.6% |  |  | 339,073 |  | 21.8% |
| Add: interest in cost of home sales |  | 38,448 |  | 2.4% |  |  | 34,653 |  | 2.2% |
|  |  |  |  |  |  |  |  |  |  |
| Add: impairments and lot option abandonments |  | 1,169 |  | 0.1% |  |  | 678 |  | —% |
| Adjusted homebuilding gross margin(1) | $ | 354,512 |  | 22.0% |  | $ | 374,404 |  | 24.0% |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Homebuilding gross margin percentage | 19.6% |  |  |  | 21.8% |  |  |  |
|  |  |  |  |  |  |  |  |  |
| Adjusted homebuilding gross margin percentage(1) | 22.0% |  |  |  | 24.0% |  |  |  |
| \_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |

1. Non-GAAP financial measure (as discussed below).

Our homebuilding gross margin percentage decreased to 19.6% for the nine months ended September 30, 2017 as compared to 21.8% for the prior year period. The decrease in gross margin percentage was primarily due to the mix of homes delivered and increased labor and materials cost. Excluding interest and impairment and lot option abandonments in cost of home sales, adjusted homebuilding gross margin percentage was 22.0% for the nine months ended September 30, 2017, compared to 24.0% for the prior year period.

Adjusted homebuilding gross margin is a non-GAAP financial measure. We believe this information is meaningful as it isolates the impact that leverage and noncash charges have on homebuilding gross margin and permits investors to make better comparisons with our competitors, who adjust gross margins in a similar fashion. Because adjusted homebuilding gross margin is not calculated in accordance with GAAP, it may not be comparable to other similarly titled measures of other companies and should not be considered in isolation or as a substitute for, or superior to, financial measures prepared in accordance with GAAP. See the table above reconciling this non-GAAP financial measure to homebuilding gross margin, the nearest GAAP equivalent.

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***Land and Lot Gross Margins (dollars in thousands)***

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Nine Months Ended September 30,** | | | | |  |
|  |  | **2017** |  | **%** |  |  | **2016** |  | **%** |
| Land and lot sales revenue | $ | 69,661 |  | 100.0% |  | $ | 70,204 |  | 100.0% |
| Cost of land and lot sales |  | 13,299 |  | 19.1% |  |  | 16,973 |  | 24.2% |
|  |  |  |  |  |  |  |  |  |  |
| Land and lot gross margin | $ | 56,362 |  | 80.9% |  | $ | 53,231 |  | 75.8% |
|  |  |  |  |  |  |  |  |  |  |

Our land and lot gross margin percentage increased to 80.9% for the nine months ended September 30, 2017 as compared to 75.8% for the prior year period. During the quarter ended September 30, 2017, our Pardee Homes reporting segment sold a parcel consisting of 69 homebuilding lots, located in the Pacific Highlands Ranch community in San Diego, California, representing $66.8 million in land and lot sales revenue and $56.1 million in land and lot gross margin. This sale resulted in significant gross margin due to the low land basis of the Pacific Highlands Ranch community, which was acquired in 1981. In June of 2016, our Pardee Homes reporting segment sold two parcels, totaling 102 homebuilding lots, located in the Pacific Highlands Ranch community in San Diego, California. Pardee Homes received $61.6 million in cash proceeds from the related sales in 2016. Land and lot sales gross margin percentage can vary significantly due to the type of land and its related cost basis. Additionally, we expect land and lot sales revenue to vary significantly between reporting periods based on our business decisions to maintain or decrease our land ownership in various markets. Our land and lot sale decisions will be based on a variety of factors, including, without limitation, prevailing market conditions.

***Sales and Marketing, General and Administrative Expense (dollars in thousands)***

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Nine Months Ended September 30,** | | | | | **As a Percentage of** | | |  |  |
|  |  | **Home Sales Revenue** | | |  |  |
|  |  | **2017** |  |  | **2016** |  | **2017** |  |  | **2016** |  |
| Sales and marketing | $ | 92,209 |  | $ | 90,621 |  | 5.7% |  |  | 5.8% |  |
| General and administrative (G&A) |  | 101,293 |  |  | 90,293 |  | 6.3% |  |  | 5.8% |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Total sales and marketing and G&A | $ | 193,502 |  | $ | 180,914 |  | 12.0% |  |  | 11.6% |  |
|  |  |  |  |  |  |  |  |  |  |  |  |

Sales and marketing expense as a percentage of home sales revenue decreased to 5.7% for the nine months ended September 30, 2017, compared to

5.8% for the prior year period. The decrease was primarily the result of higher operating leverage on the fixed components of sales and marketing expenses as

a result of the 3% increase in homes sales revenue. Total sales and marketing expense increased by $1.6 million to $92.2 million for the nine months ended

September 30, 2017, compared to $90.6 million in the prior year period.

G&A expenses as a percentage of home sales revenue increased to 6.3% of home sales revenue for the nine months ended September 30, 2017 compared to 5.8% for the prior year period. G&A expenses increased to $101.3 million for the nine months ended September 30, 2017 compared to $90.3 million in the prior year period primarily as a result of additional headcount to support future growth, along with our continued expansion into Austin, Texas and Los Angeles, California and the recently announced expansion into the Sacramento, California market.

SG&A as a percentage of home sales revenue increased to 12.0% for the nine months ended September 30, 2017, compared to 11.6% in the prior year period. Total SG&A expense increased $12.6 million, to $193.5 million for the nine months ended September 30, 2017 from $180.9 million in the prior year period.

***Interest***

Interest, which was incurred principally to finance land acquisitions, land development and home construction, totaled $61.7 million and $50.0 million for the nine months ended September 30, 2017 and 2016, respectively. All interest incurred in both periods was capitalized. The increase in interest incurred during the nine months ended September 30, 2017 as compared to the prior year period was primarily attributable to an increase in our debt balance and our weighted average interest rate as a result of the issuance of the 2021 Notes in May of 2016, along with the 2027 Notes in June of 2017.

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***Income Tax***

For the nine months ended September 30, 2017, we recorded a tax provision of $69.8 million based on an effective tax rate of 38.1%. For the nine months ended September 30, 2016, we recorded a tax provision of $77.7 million based on an effective tax rate of 36.0%. The increase in the current year income tax rate is due to the expiration of federal energy tax credits in 2017 as well as a negative impact on the tax rate from the expiration of non-qualified stock options. The decrease in provision for income taxes is due to a decrease in income before income taxes of $32.6 million to $183.1 million for the nine months ended September 30, 2017, compared to $215.7 million for the prior year period.

***Lots Owned or Controlled by Segment***

Excluded from owned and controlled lots are those related to Note 6, *Investments in Unconsolidated Entities*. The table below summarizes our lots owned or controlled by segment as of the dates presented:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **September 30,** | | |  |  | **Increase** | | |  |  |
|  |  |  | **(Decrease)** | | |  |  |
|  | **2017** |  |  | **2016** |  | **Amount** | | | **%** |  |
| **Lots Owned** |  |  |  |  |  |  |  |  |  |  |
| Maracay Homes | 1,855 |  |  | 1,662 |  | 193 |  |  | 12 % |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Pardee Homes | 15,348 |  |  | 15,906 |  | (558) |  |  | (4)% |  |
| Quadrant Homes | 1,169 |  |  | 969 |  | 200 |  |  | 21 % |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Trendmaker Homes | 1,542 |  |  | 1,757 |  | (215) |  |  | (12)% |  |
| TRI Pointe Homes | 3,117 |  |  | 3,048 |  | 69 |  |  | 2 % |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Winchester Homes | 1,772 |  |  | 1,886 |  | (114) |  |  | (6)% |  |
| Total | 24,803 |  |  | 25,228 |  | (425) |  |  | (2)% |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Lots Controlled(1)** |  |  |  |  |  |  |  |  |  |  |
| Maracay Homes | 751 |  |  | 596 |  | 155 |  |  | 26 % |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Pardee Homes | 307 |  |  | 1,081 |  | (774) |  |  | (72)% |  |
| Quadrant Homes | 516 |  |  | 926 |  | (410) |  |  | (44)% |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Trendmaker Homes | 314 |  |  | 373 |  | (59) |  |  | (16)% |  |
| TRI Pointe Homes | 667 |  |  | 912 |  | (245) |  |  | (27)% |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Winchester Homes | 534 |  |  | 597 |  | (63) |  |  | (11)% |  |
| Total | 3,089 |  |  | 4,485 |  | (1,396) |  |  | (31)% |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Total Lots Owned or Controlled(1)** | 27,892 |  |  | 29,713 |  | (1,821) |  |  | (6)% |  |
| \_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |

1. As of September 30, 2017 and 2016, lots controlled included lots that were under land or lot option contracts or purchase contracts.

**Liquidity and Capital Resources**

***Overview***

Our principal uses of capital for the nine months ended September 30, 2017 were operating expenses, land purchases, land development and home construction. We used funds generated by our operations and available borrowings to meet our short-term working capital requirements. We remain focused on generating positive margins in our homebuilding operations and acquiring desirable land positions in order to maintain a strong balance sheet and keep us poised for growth. As of September 30, 2017, we had total liquidity of $554.6 million, including cash and cash equivalents of $162.4 million and $392.2 million of availability under our Credit Facility after considering the borrowing base provisions and outstanding letters of credit.

Our board of directors will consider a number of factors when evaluating our level of indebtedness and when making decisions regarding the incurrence of new indebtedness, including the purchase price of assets to be acquired with debt financing, the estimated market value of our assets and the ability of particular assets, and our Company as a whole, to generate cash flow to cover the expected debt service. Our charter does not contain a limitation on the amount of debt we may incur and our board of directors may change our target debt levels at any time without the approval of our stockholders.

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***Senior Notes***

In June 2017, TRI Pointe Group issued the 2027 Notes at 100.00% of their aggregate principal amount. Net proceeds of this issuance was $296.3 million, after debt issuance costs and discounts. The 2027 Notes mature on June 1, 2027 and interest is paid semiannually in arrears on June 1 and December 1.

In May 2016, TRI Pointe Group issued $300 million aggregate principal amount of 4.875% Senior Notes due 2021 (the “2021 Notes”) at 99.44% of their aggregate principal amount. Net proceeds of this issuance was $293.9 million, after debt issuance costs and discounts. The 2021 Notes mature on July 1, 2021 and interest is paid semiannually in arrears on January 1 and July 1.

TRI Pointe Group and TRI Pointe Homes are co-issuers of $450 million aggregate principal amount of 4.375% Senior Notes due 2019 (“2019 Notes”) and $450 million aggregate principal amount of 5.875% Senior Notes due 2024 (“2024 Notes”). The 2019 Notes were issued at 98.89% of their aggregate principal amount and the 2024 Notes were issued at 98.15% of their aggregate principal amount. The net proceeds from the offering were $861.3 million, after debt issuance costs and discounts. The 2019 Notes and 2024 Notes mature on June 15, 2019 and June 15, 2024. Interest is payable semiannually in arrears on June 15 and December 15.

As of September 30, 2017, no principal has been paid on the 2019 Notes, 2021 Notes, 2024 Notes and 2027 Notes (together, the "Senior Notes"), and there was $21.1 million of capitalized debt financing costs, included in senior notes, net on our consolidated balance sheet, related to the Senior Notes that will amortize over the lives of the Senior Notes. Accrued interest related to the Senior Notes was $22.1 million and $10.7 million as of September 30, 2017 and December 31, 2016, respectively.

***Unsecured Revolving Credit Facility***

On June 20, 2017, the Company modified its existing unsecured revolving credit facility (the “Credit Facility”) to extend the maturity date by two years to May 18, 2021, while decreasing the total commitments under the Credit Facility to $600 million from $625 million. In addition, the Credit Facility was modified to give the Company the option to make offers to the lenders to extend the maturity date of the facility in twelve-month increments, subject to the satisfaction of certain conditions. The Credit Facility contains a sublimit of $75 million for letters of credit. The Company may borrow under the Credit Facility in the ordinary course of business to fund its operations, including its land development and homebuilding activities. Borrowings under the Credit Facility will be governed by, among other things, a borrowing base. The Credit Facility contains customary affirmative and negative covenants, including financial covenants relating to consolidated tangible net worth, leverage, and liquidity or interest coverage. Interest rates on borrowings will be based on either a daily Eurocurrency base rate or a Eurocurrency rate, in either case, plus a spread ranging from 1.25% to 2.00% depending on the Company’s leverage ratio. As of September 30, 2017, the outstanding balance under the Credit Facility was $200.0 million with an interest rate 2.99% per annum and $392.2 million of availability after considering the borrowing base provisions and outstanding letters of credit. At September 30, 2017, we had outstanding letters of credit of $7.8 million. These letters of credit were issued to secure various financial obligations. We believe it is not probable that any outstanding letters of credit will be drawn upon.

***Stock Repurchase Program***

On February 23, 2017, our board of directors approved the 2017 Repurchase Program. On July 25, 2017 our board of directors authorized the repurchase of up to an additional $50 million of our common stock under the 2017 Repurchase Program, increasing the aggregate authorization from $100 million to $150 million. Purchases of common stock pursuant to the 2017 Repurchase Program may be made in open market transactions effected through a broker-dealer at prevailing market prices, in block trades, or by other means in accordance with federal securities laws, including pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Exchange Act. We are not obligated under the 2017 Repurchase Program to repurchase any specific number or amount of shares of common stock, and we may modify, suspend or discontinue the program at any time. Our management will determine the timing and amount of repurchase in its discretion based on a variety of factors, such as the market price of our common stock, corporate requirements, general market economic conditions and legal requirements. For the three months ended September 30, 2017, we repurchased and retired 975,700 shares of our common stock under this program at a weighted average price of $12.83 per share for a total cost of $12.5 million. For the nine months ended September 30, 2017, we repurchased and retired 8,994,705 shares of common stock under this program at a weighted average price of $12.48 per share, for a total cost of $112.2 million.

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***Covenant Compliance***

Under our Credit Facility, we are required to comply with certain financial covenants, including, but not limited to, those set forth in the table below (dollars in thousands):

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Actual at** | |  | **Covenant** | |  |
|  |  |  | **Requirement at** | |  |
|  |  | **September 30,** | |  | **September 30,** | |  |
| **Financial Covenants** |  | **2017** |  |  | **2017** |  |  |
| Consolidated Tangible Net Worth | $ | 1,681,335 |  | $ | 1,152,489 | |  |
| (Not less than $1.1 billion plus 50% of net income and |  |  |  |  |  |  |  |
| 50% of the net proceeds from equity offerings after |  |  |  |  |  |  |  |
| March 31, 2017) |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| Leverage Test |  | 47.7% |  |  |  | ≤55% |  |
| (Not to exceed 55%) |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| Interest Coverage Test |  | 4.3 |  |  |  | ≥1.5 |  |
| (Not less than 1.5:1.0) |  |  |  |  |  |  |  |

As of September 30, 2017, we were in compliance with all of these financial covenants.

***Leverage Ratios***

We believe that our leverage ratios provide useful information to the users of our financial statements regarding our financial position and cash and debt management. The ratio of debt-to-capital and the ratio of net debt-to-net capital are calculated as follows (dollars in thousands):

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **September 30, 2017** | |  | **December 31, 2016** |  |
| Unsecured revolving credit facility | $ | 200,000 |  | $ | 200,000 |  |
| Seller financed loans |  | — | |  | 13,726 |  |
|  |  |  |  |  |  |  |
| Senior Notes |  | 1,469,558 |  |  | 1,168,307 |  |
| Total debt |  | 1,669,558 |  |  | 1,382,033 |  |
|  |  |  |  |  |  |  |
| Stockholders’ equity |  | 1,842,429 |  |  | 1,829,447 |  |
| Total capital | $ | 3,511,987 |  | $ | 3,211,480 |  |
|  |  |  |  |  |  |  |
| Ratio of debt-to-capital(1) |  | 47.5% |  |  | 43.0% |  |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Total debt | $ | 1,669,558 |  | $ | 1,382,033 |  |
| Less: Cash and cash equivalents |  | (162,396) |  |  | (208,657) |  |
|  |  |  |  |  |  |  |
| Net debt |  | 1,507,162 |  |  | 1,173,376 |  |
| Stockholders’ equity |  | 1,842,429 |  |  | 1,829,447 |  |
|  |  |  |  |  |  |  |
| Net capital | $ | 3,349,591 |  | $ | 3,002,823 |  |
|  |  |  |  |  |  |  |
| Ratio of net debt-to-net capital(2) |  | 45.0% |  |  | 39.1% |  |
| \_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |
|  |  |  |  |  |  |

1. The ratio of debt-to-capital is computed as the quotient obtained by dividing total debt by the sum of total debt plus equity.
2. The ratio of net debt-to-net capital is a non-GAAP measure and is computed as the quotient obtained by dividing net debt (which is total debt less cash and cash equivalents) by the sum of net debt plus equity. The most directly comparable GAAP financial measure is the ratio of debt-to-capital. We believe the ratio of net debt-to-net capital is a relevant financial measure for investors to understand the leverage employed in our operations and as an indicator of our ability to obtain financing. See the table above reconciling this non-GAAP financial measure to the ratio of debt-to-

capital. Because the ratio of net debt-to-net capital is not calculated in accordance with GAAP, it may not be comparable to other similarly titled measures of other companies and should not be considered in isolation or as a substitute for, or superior to, financial measures prepared in accordance with GAAP.

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

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

* Net cash used in operating activities decreased by $50.7 million to $210.7 million for the nine months ended September 30, 2017, from $261.3 million for the nine months ended September 30, 2016. The change was comprised of offsetting activity, including (i) an increase in real estate inventory of $401.3 million in 2017 compared to an increase of $442.7 million in 2016, offset by (ii) decrease in net income of $24.7 million in 2017 compared to the prior year period, and (iii) other offsetting activity including changes in other assets, receivables, accounts payable and accrued expenses.
* Net cash used in investing activities was $3.1 million for the nine months ended September 30, 2017, compared to $2.1 million for the prior year period in 2016. The increase in cash used in investing activities was due mainly to increased investments in unconsolidated entities.
* Net cash provided by financing activities decreased to $167.5 million for the nine months ending September 30, 2017, from $177.6 million for the same period in the prior year. The change was primarily a result of higher net borrowings from debt of $280.3 million during the nine months ended September 30, 2017, compared to $209.2 million for the nine months ended September 30, 2016, offset by higher cash used for share repurchases of $112.2 million during the nine months ended September 30, 2017, compared to $25.1 million for the nine months ended September 30, 2016.

As of September 30, 2017, our cash and cash equivalents balance was $162.4 million.

**Off-Balance Sheet Arrangements and Contractual Obligations**

In the ordinary course of business, we enter into land and lot option contracts in order to procure lots for the construction of our homes. We are subject to customary obligations associated with entering into contracts for the purchase of land and improved lots. These purchase contracts typically require a cash deposit and the purchase of properties under these contracts is generally contingent upon satisfaction of certain requirements by the sellers, including obtaining applicable property and development entitlements. We also utilize option contracts with land sellers as a method of acquiring land in staged takedowns, to help us manage the financial and market risk associated with land holdings, and to reduce the use of funds from our corporate financing sources. Option contracts generally require a non-refundable deposit for the right to acquire land and lots over a specified period of time at pre-determined prices. We generally have the right, at our discretion, to terminate our obligations under both purchase contracts and option contracts by forfeiting our cash deposit with no further financial responsibility to the land seller. As of September 30, 2017, we had $27.1 million of cash deposits, the majority of which are non-refundable, pertaining to land and lot option contracts and purchase contracts with an aggregate remaining purchase price of $355.4 million (net of deposits).

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

As of September 30, 2017, we had total liquidity of $554.6 million, including cash of $162.4 million and $392.2 million of availability under our Credit Facility after considering the borrowing base provisions and outstanding letters of credit.

**Inflation**

Our operations can be adversely impacted by inflation, primarily from higher land, financing, labor, material and construction costs. In addition, inflation can lead to higher mortgage rates, which can significantly affect the affordability of mortgage financing to homebuyers. While we attempt to pass on cost increases to customers through increased prices, when weak housing market conditions exist, we are often unable to offset cost increases with higher selling prices.

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**Seasonality**

Historically, the homebuilding industry experiences seasonal fluctuations in quarterly operating results and capital requirements. We typically experience the highest new home order activity during the first and second quarters of our fiscal year, although this activity is also highly dependent on the number of active selling communities, timing of new community openings and other market factors. Since it typically takes three to nine months to construct a new home, the number of homes delivered and associated home sales revenue typically increases in the third and fourth quarters of our fiscal year as new home orders sold earlier in the year convert to home deliveries. Because of this seasonality, home starts, construction costs and related cash outflows have historically been highest in the second and third quarters of our fiscal year, and the majority of cash receipts from home deliveries occur during the second half of the year. We expect this seasonal pattern to continue over the long-term, although it may be affected by volatility in the homebuilding industry.

**Description of Projects and Communities under Development**

The following table presents project information relating to each of our markets as of September 30, 2017 and includes information on current projects under development where we are building and selling homes.

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***Maracay Homes***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **Cumulative** | |  |  |  |  | **Homes** |  |  |  |
|  |  |  |  |  |  |  | **Homes** | | **Lots** | |  |  | **Delivered** |  |  |  |
|  |  |  | **Year of** | | **Total** | | **Delivered** | | **Backlog as of** | | **for the Nine** |  | **Sales Price** |  |
|  |  |  | **as of** | | **Owned as of** | | **Months Ended** |  |  |
|  |  |  | **First** | | **Number of** | | **September 30,** | | **September 30,** | | **September 30,** | | **September 30,** |  | **Range** |  |
| **County, Project, City** | | | **Delivery(1)** | | **Lots(2)** | | **2017** |  | **2017(3)** |  | **2017(4)(5)** |  | **2017** |  | **(in thousands)(6)** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Phoenix, Arizona** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| City of Buckeye: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Verrado Palisades | | | 2015 |  | 63 |  | 55 |  | 8 |  | 6 |  | 22 | $301 - $374 | |  |
| Verrado Victory | | | 2015 |  | 98 |  | 43 |  | 55 |  | 15 |  | 13 | $363 - $396 | |  |
| City of Chandler: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Sendera Place | | | 2015 |  | 79 |  | 79 |  | — | | — | | 21 | $277 - $324 | |  |
| Hawthorn Manor | | | 2017 |  | 84 |  | 12 |  | 72 |  | 31 |  | 12 | $517 - $559 | |  |
| Mission Estates | | | 2019 |  | 26 |  | — | | 26 |  | — | | — | $545 - $570 | |  |
| City of Gilbert: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Marquis at Morrison Ranch | | | 2016 |  | 66 |  | 61 |  | 5 |  | 3 |  | 25 | $414 - $501 | |  |
| Artisan at Morrison Ranch | | | 2016 |  | 105 |  | 69 |  | 36 |  | 20 |  | 34 | $339 - $392 | |  |
| The Preserve at Adora Trails | | | 2017 |  | 82 |  | 11 |  | 71 |  | 30 |  | 11 | $408 - $451 | |  |
| Marathon Ranch | | | 2018 |  | 63 |  | — | | 63 |  | — | | — | $486 - $535 | |  |
| Lakes At Annecy | | | 2018 |  | 216 |  | — | | 216 |  | — | | — | $276 - $309 | |  |
| Lakeview Trails | | | 2019 |  | 92 |  | — | | 92 |  | — | | — | $451 - $511 | |  |
| City of Goodyear: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Rio Paseo Villages | | | 2018 |  | 117 |  | — | | 117 |  | — | | — | $213 - $227 | |  |
| Rio Paseo Cottages | | | 2018 |  | 93 |  | — | | 93 |  | — | | — | $253 - $271 | |  |
| City of Mesa: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Kinetic Point at Eastmark | | | 2013 |  | 80 |  | 77 |  | 3 |  | — | | 2 | $294 - $373 | |  |
| Lumiere Garden at Eastmark | | | 2013 |  | 85 |  | 82 |  | 3 |  | 3 |  | 7 | $332 - $409 | |  |
| Aileron Square at Eastmark | | | 2016 |  | 58 |  | 46 |  | 12 |  | 12 |  | 22 | $332 - $409 | |  |
| Curie Court at Eastmark | | | 2016 |  | 106 |  | 50 |  | 56 |  | 26 |  | 20 | $294 - $373 | |  |
| Palladium Point | | | 2016 |  | 53 |  | 22 |  | 31 |  | 24 |  | 18 | $321 - $390 | |  |
| The Vista at Granite Crossing | | | 2018 |  | 37 |  | — | | 37 |  | — | | — | $412 - $488 | |  |
| Town of Peoria: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| The Reserve at Plaza del Rio | | | 2013 |  | 162 |  | 162 |  | — | | — | | 27 | $227 - $270 | |  |
| Maracay at Northlands | | | 2014 |  | 90 |  | 90 |  | — | | — | | 13 | $330 - $411 | |  |
| Legacy at The Meadows | | | 2017 |  | 74 |  | 19 |  | 55 |  | 25 |  | 19 | $415 - $441 | |  |
| Estates at The Meadows | | | 2017 |  | 272 |  | 27 |  | 245 |  | 31 |  | 27 | $471 - $545 | |  |
| Enclave at The Meadows | | | 2018 |  | 126 |  | — | | 126 |  | 5 |  | — | $377 - $472 | |  |
| City of Phoenix: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Navarro Groves | | | 2018 |  | 54 |  | — | | 54 |  | — | | — | $402 - $447 | |  |
| Vistal | | | 2019 |  | 204 |  | — | | 204 |  | — | | — | $336 - $598 | |  |
| Town of Queen Creek: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| The Preserve at Hastings Farms | | | 2014 |  | 89 |  | 89 |  | — | | — | | 1 | $300 - $385 | |  |
| Villagio | | | 2013 |  | 135 |  | 135 |  | — | | — | | 6 | $291 - $352 | |  |
| **Phoenix, Arizona Total** | | |  |  | **2,809** |  | **1,129** |  | **1,680** |  | **231** |  | **300** |  |  |  |
| **Tucson, Arizona** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Marana: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Tortolita Vistas | | | 2014 |  | 55 |  | 55 |  | — | | — | | 14 | $458 - $515 | |  |
| Oro Valley: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Rancho del Cobre | | | 2014 |  | 68 |  | 66 |  | 2 |  | — | | 11 | $410 - $478 | |  |
| Desert Crest - Center Pointe Vistoso | | | 2016 |  | 103 |  | 40 |  | 63 |  | 17 |  | 27 | $257 - $302 | |  |
| The Cove - Center Pointe Vistoso | | | 2016 |  | 83 |  | 37 |  | 46 |  | 24 |  | 19 | $344 - $404 | |  |
| Summit N & S - Center Pointe Vistoso | | | 2016 |  | 88 |  | 55 |  | 33 |  | 11 |  | 32 | $393 - $428 | |  |
| The Pinnacle - Center Pointe Vistoso | | | 2016 |  | 69 |  | 51 |  | 18 |  | 12 |  | 29 | $446 - $478 | |  |
| Tucson: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Ranches at Santa Catalina | | | 2016 |  | 34 |  | 21 |  | 13 |  | 10 |  | 15 | $414 - $460 | |  |
| **Tucson, Arizona Total** | | |  |  | **500** |  | **325** |  | **175** |  | **74** |  | **147** |  |  |  |
| **Maracay Total** | | |  |  | **3,309** |  | **1,454** |  | **1,855** |  | **305** |  | **447** |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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***Pardee Homes***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **Cumulative** | |  |  |  |  | **Homes** |  |  |  |  |
|  |  |  |  |  |  |  | **Homes** | | **Lots** | |  |  | **Delivered** |  |  |  |  |
|  |  |  | **Year of** | | **Total** | | **Delivered** | | **Backlog as of** | | **for the Nine** |  | **Sales Price** | |  |
|  |  |  | **as of** | | **Owned as of** | | **Months Ended** |  |  |
|  |  |  | **First** | | **Number of** | | **September 30,** | | **September 30,** | | **September 30,** | | **September 30,** |  | **Range** | |  |
| **County, Project, City** | | | **Delivery(1)** | | **Lots(2)** | | **2017** |  | **2017(3)** |  | **2017(4)(5)** |  | **2017** |  | **(in thousands)(6)** | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **California** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| San Diego County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Casabella | | | 2015 |  | 139 |  | 139 |  | — | | — | | 39 | $900 - $1,000 | | |  |
| Casavia | | | 2017 |  | 83 |  | 34 |  | 49 |  | 47 |  | 34 | $980 - $1,070 | | |  |
| Artesana | | | 2017 |  | 56 |  | 11 |  | 45 |  | 33 |  | 11 | $1,680 | | - $1,910 |  |
| Almeria | | | 2017 |  | 80 |  | — | | 80 |  | 18 |  | — | $1,440 | | - $1,530 |  |
| Olvera | | | 2017 |  | 84 |  | — | | 84 |  | 27 |  | — | $1,310 | | - $1,425 |  |
| Pacific Highlands Ranch Future | | | TBD | | 605 |  | — | | 536 |  | — | | — |  | TBD | |  |
| Olive Hill Estate | | | 2016 |  | 37 |  | 35 |  | 2 |  | 2 |  | 19 | $650 | | - $770 |  |
| Sandstone (Castlerock) | | | 2018 |  | 81 |  | — | | 81 |  | — | | — | $650 | | - $680 |  |
| Lake Ridge (Castlerock) | | | 2018 |  | 129 |  | — | | 129 |  | — | | — | $740 | | - $800 |  |
| Meadowood | | | TBD | | 844 |  | — | | 844 |  | — | | — | $290 | | - $590 |  |
| Parkview Condos | | | 2016 |  | 73 |  | 73 |  | — | | — | | 37 | $435 | | - $515 |  |
| Luna | | | 2017 |  | 96 |  | 36 |  | 60 |  | 48 |  | 36 | $370 | | - $470 |  |
| Azul | | | 2017 |  | 121 |  | 48 |  | 73 |  | 45 |  | 48 | $360 | | - $460 |  |
| Ocean View Hills Future | | | 2017 |  | 691 |  | — | | 691 |  | — | | — |  | TBD | |  |
| South Otay Mesa | | | TBD | | 893 |  | — | | 893 |  | — | | — |  | TBD | |  |
| Los Angeles County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Aliento - Verano | | | 2017 |  | 95 |  | — | | 95 |  | 11 |  | — | $540 | | - $660 |  |
| Aliento - Arista | | | 2017 |  | 112 |  | 11 |  | 101 |  | 25 |  | 11 | $695 | | - $760 |  |
| Aliento - 55x100 | | | 2018 |  | 94 |  | — | | 94 |  | — | | — |  | TBD | |  |
| Aliento - 70x100 | | | 2018 |  | 67 |  | — | | 67 |  | — | | — |  | TBD | |  |
| Skyline Ranch | | | TBD | | 1,220 |  | — | | 1,220 |  | — | | — | $550 - $810 | | |  |
| Riverside County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Meadow Glen | | | 2014 |  | 142 |  | 142 |  | — | | — | | 2 | $350 | | - $410 |  |
| Senterra | | | 2016 |  | 82 |  | 61 |  | 21 |  | 16 |  | 36 | $415 | | - $480 |  |
| Vantage | | | 2016 |  | 83 |  | 40 |  | 43 |  | 11 |  | 25 | $370 | | - $390 |  |
| Viewpoint | | | 2016 |  | 75 |  | 69 |  | 6 |  | 4 |  | 51 | $305 | | - $330 |  |
| Overlook | | | 2016 |  | 112 |  | 60 |  | 52 |  | 33 |  | 36 | $315 | | - $345 |  |
| Aura | | | 2017 |  | 79 |  | 34 |  | 45 |  | 11 |  | 34 | $350 | | - $375 |  |
| Starling | | | 2017 |  | 107 |  | 4 |  | 103 |  | 13 |  | 4 | $410 | | - $425 |  |
| Canyon Hills Future 70 x 115 | | | 2018 |  | 125 |  | — | | 125 |  | — | | — |  | TBD | |  |
| Tournament Hills Future | | | TBD | | 268 |  | — | | 268 |  | — | | — |  | TBD | |  |
| Northstar | | | 2015 |  | 102 |  | 96 |  | 6 |  | 4 |  | 30 | $320 | | - $340 |  |
| Skycrest | | | 2015 |  | 131 |  | 90 |  | 41 |  | 17 |  | 22 | $370 | | - $390 |  |
| Flagstone | | | 2016 |  | 79 |  | 52 |  | 27 |  | 11 |  | 18 | $420 | | - $450 |  |
| Lunetta | | | 2016 |  | 89 |  | 88 |  | 1 |  | 1 |  | 33 | $290 | | - $320 |  |
| Elara | | | 2016 |  | 215 |  | 80 |  | 135 |  | 39 |  | 60 | $290 | | - $310 |  |
| Daybreak | | | 2017 |  | 139 |  | — | | 139 |  | 29 |  | — | $325 | | - $340 |  |
| Cascade | | | 2017 |  | 105 |  | — | | 105 |  | 17 |  | — | $296 | | - $312 |  |
| Abrio | | | 2018 |  | 83 |  | — | | 83 |  | — | | — |  | TBD | |  |
| Beacon | | | 2018 |  | 108 |  | — | | 108 |  | — | | — |  | TBD | |  |
| Sundance Future Active Adult | | | TBD | | 704 |  | — | | 704 |  | — | | — |  | TBD | |  |
| Sundance Future | | | TBD | | 101 |  | — | | 101 |  | — | | — |  | TBD | |  |
| Avena | | | 2017 |  | 84 |  | — | | 84 |  | — | | — | $400 | | - $440 |  |
| Tamarack | | | 2017 |  | 84 |  | — | | 84 |  | — | | — | $430 | | - $460 |  |
| Centennial | | | TBD | | 359 |  | — | | 359 |  | — | | — | $375 | | - $450 |  |
| Banning | | | TBD | | 4,318 |  | — | | 4,318 |  | — | | — |  | TBD | |  |
| San Joaquin County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bear Creek | | | TBD | | 1,252 |  | — | | 1,252 |  | — | | — |  | TBD | |  |
| **California Total** | | |  |  | **14,626** |  | **1,203** |  | **13,354** |  | **462** |  | **586** |  |  |  |  |
| **Nevada** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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Clark County:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| LivingSmart Sandstone | 2013 | 145 | 145 | — | — | 1 | $228 - $255 |
| North Peak | 2015 | 171 | 96 | 75 | 24 | 39 | $299 - $350 |
| Castle Rock | 2015 | 188 | 98 | 90 | 18 | 37 | $340 - $430 |
| Camino | 2016 | 86 | 82 | 4 | 4 | 59 | $255 - $270 |
| Solano | 2014 | 132 | 132 | — | — | 15 | $300 - $335 |
| Alterra | 2014 | 47 | 47 | — | — | 2 | $425 - $505 |
| Bella Verdi | 2015 | 57 | 49 | 8 | 4 | 2 | $400 - $440 |
| Escala | 2016 | 103 | 39 | 64 | 10 | 20 | $520 - $590 |
| Montero | 2016 | 77 | 33 | 44 | 26 | 25 | $420 - $500 |
| Strada | 2017 | 119 | 13 | 106 | 11 | 13 | $405 - $440 |
| Linea | 2018 | 87 | — | 87 | — | — | $300 - $350 |
| Meridian | 2016 | 62 | 30 | 32 | 20 | 10 | $590 - $680 |
| Encanto | 2016 | 51 | 26 | 25 | 8 | 15 | $470 - $525 |
| Luma | 2017 | 71 | — | 71 | — | — | $470 - $526 |
| Encanto Townhomes | 2018 | 70 | — | 70 | — | — | TBD |
| Horizon Terrace | 2014 | 165 | 124 | 41 | 14 | 30 | $410 - $465 |
| Horizon Valle Verde | 2018 | 53 | — | 53 | — | — | $450 - $470 |
| Summerglen | 2014 | 140 | 140 | — | — | 27 | $300 - $305 |
| Keystone | 2017 | 70 | 15 | 55 | 9 | 14 | $450 - $540 |
| Cobalt | 2017 | 107 | — | 107 | 5 | — | $355 - $420 |
| Axis | 2017 | 78 | 1 | 77 | 16 | 1 | $825 - $1,035 |
| The Canyons at MacDonald Ranch - R | 2017 | 22 | — | 22 | — | — | $515 - $585 |
| Pivot | 2017 | 88 | — | 88 | 8 | — | $400 - $440 |
| Strada at Pivot | 2017 | 27 | — | 27 | 7 | — | $440 - $475 |
| Nova Ridge | 2018 | 108 | — | 108 | — | — | $620 - $760 |
| Tera Luna | 2017 | 116 | — | 116 | — | — | $540 - $590 |
| Onyx | 2018 | 88 | — | 88 | — | — | $425 - $465 |
| Tule Springs | TBD | 339 | — | 339 | — | — | TBD |
| Cactus/Jones | TBD | 54 | — | 54 | — | — | TBD |
| Commerce & Deer Springs | TBD | 143 | — | 143 | — | — | TBD |
| **Nevada Total** |  | **3,064** | **1,070** | **1,994** | **184** | **310** |  |
| **Pardee Total** |  | **17,690** | **2,273** | **15,348** | **646** | **896** |  |
|  |  |  |  |  |  |  |  |

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***Quadrant Homes***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **Cumulative** | |  |  |  |  | **Homes** |  |  |  |  |
|  |  |  |  |  |  |  | **Homes** | | **Lots** | |  |  | **Delivered** |  |  |  |  |
|  |  |  | **Year of** | | **Total** | | **Delivered** | | **Backlog as of** | | **for the Nine** |  | **Sales Price** | |  |
|  |  |  | **as of** | | **Owned as of** | | **Months Ended** |  |  |
|  |  |  | **First** | | **Number of** | | **September 30,** | | **September 30,** | | **September 30,** | | **September 30,** |  | **Range** | |  |
| **County, Project, City** | | | **Delivery(1)** | | **Lots(2)** | | **2017** |  | **2017(3)** |  | **2017(4)(5)** |  | **2017** |  | **(in thousands)(6)** | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Washington** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Snohomish County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Evergreen Heights, Monroe | | | 2016 |  | 71 |  | 46 |  | 25 |  | 25 |  | 43 | $459 | | - $558 |  |
| The Grove at Canyon Park, Bothell | | | 2017 |  | 60 |  | 9 |  | 51 |  | 46 |  | 9 | $645 | | - $780 |  |
| Greenstone Heights, Bothell | | | 2017 |  | 41 |  | — | | 41 |  | 12 |  | — | $920 - $1,102 | | |  |
| King County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Viscaia, Bellevue | | | 2017 |  | 18 |  | 17 |  | 1 |  | 1 |  | 17 | $880 | | |  |
| Trailside, Redmond | | | 2017 |  | 9 |  | 2 |  | 7 |  | 5 |  | 2 | $1,119 - $1,317 | | |  |
| Vareze, Kirkland | | | 2019 |  | 82 |  | — | | 82 |  | — | | — | $661 | | - $871 |  |
| Parkwood Terrace, Woodinville | | | 2017 |  | 15 |  | 2 |  | 13 |  | 13 |  | 2 | $759 | | - $960 |  |
| Hazelwood Ridge, Newcastle | | | 2017 |  | 30 |  | 3 |  | 27 |  | 25 |  | 3 | $805 - $1,025 | | |  |
| Inglewood Landing, Sammamish | | | 2018 |  | 21 |  | — | | 21 |  | — | | — | $1,100 | | - $1,280 |  |
| Jacobs Landing, Issaquah | | | 2017 |  | 20 |  | — | | 20 |  | 1 |  | — | $1,160 | | - $1,289 |  |
| Kirkwood Terrace, Sammamish | | | 2018 |  | 12 |  | — | | 12 |  | — | | — | $1,725 | | - $2,026 |  |
| English Landing P2, Redmond | | | 2017 |  | 25 |  | — | | 25 |  | 9 |  | — | $1,084 | | - $1,340 |  |
| English Landing P1, Redmond | | | 2018 |  | 50 |  | — | | 50 |  | — | | — | $1,100 | | - $1,350 |  |
| Cedar Landing, North Bend | | | 2018 |  | 138 |  | — | | 138 |  | — | | — | $660 | | - $810 |  |
| Monarch Ridge, Sammamish | | | 2018 |  | 59 |  | — | | 59 |  | — | | — | $915 - $1,065 | | |  |
| Overlook at Summit Park, Maple Valley | | | 2018 |  | 122 |  | — | | 122 |  | — | | — | $600 | | - $765 |  |
| Ray Meadows, Redmond | | | 2018 |  | 27 |  | — | | 27 |  | — | | — | $1,094 | | - $1,355 |  |
| Wynstone, Federal Way | | | TBD | | 4 |  | — | | 4 |  | — | | — |  | TBD | |  |
| Breva, Bellevue | | | 2017 |  | 29 |  | — | | 29 |  | 15 |  | — | $777 | | - $888 |  |
| Canton Crossing, Maple Valley | | | 2017 |  | 51 |  | 2 |  | 49 |  | 14 |  | 2 | $563 | | - $655 |  |
| Aurea, Sammamish | | | 2018 |  | 41 |  | — | | 41 |  | — | | — | $670 | | - $860 |  |
| Aldea (Avalon Townhomes), Newcastle | | | 2018 |  | 129 |  | — | | 129 |  | — | | — | $620 | | - $885 |  |
| Pierce County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Harbor Hill S-5/6, Gig Harbor | | | 2017 |  | 72 |  | 12 |  | 60 |  | 10 |  | 12 | $443 | | - $501 |  |
| Harbor Hill S-2, Gig Harbor | | | 2017 |  | 41 |  | — | | 41 |  | 5 |  | — | $425 | | - $464 |  |
| Kitsap County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Mountain Aire, Poulsbo | | | 2016 |  | 145 |  | 69 |  | 76 |  | 25 |  | 40 | $412 | | - $473 |  |
| Winslow Grove, Bainbridge Island | | | 2018 |  | 19 |  | — | | 19 |  | — | | — | $1,067 | | - $1,212 |  |
| Closed Communities | | | N/A | | — | | — | | — | | — | | 76 |  | N/A | |  |
| **Washington Total** | | |  |  | **1,331** |  | **162** |  | **1,169** |  | **206** |  | **206** |  |  |  |  |
| **Quadrant Total** | | |  |  | **1,331** |  | **162** |  | **1,169** |  | **206** |  | **206** |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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***Trendmaker Homes***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **Cumulative** | |  |  |  |  | **Homes** |  |  |  |
|  |  |  |  |  |  |  | **Homes** | | **Lots** | |  |  | **Delivered** |  |  |  |
|  |  |  | **Year of** | | **Total** | | **Delivered** | | **Backlog as of** | | **for the Nine** |  | **Sales Price** |  |
|  |  |  | **as of** | | **Owned as of** | | **Months Ended** |  |  |
|  |  |  | **First** | | **Number of** | | **September 30,** | | **September 30,** | | **September 30,** | | **September 30,** |  | **Range** |  |
| **County, Project, City** | | | **Delivery(1)** | | **Lots(2)** | | **2017** |  | **2017(3)** |  | **2017(4)(5)** |  | **2017** |  | **(in thousands)(6)** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Texas** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Brazoria County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Sedona Lakes, Pearland | | | 2014 |  | 34 |  | 27 |  | 7 |  | 6 |  | 6 | $380 | |  |
| Pomona, Manvel | | | 2015 |  | 49 |  | 18 |  | 31 |  | 8 |  | 13 | $360 - $455 | |  |
| Rise Meridiana | | | 2016 |  | 31 |  | 14 |  | 17 |  | 4 |  | 13 | $288 - $346 | |  |
| Fort Bend County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cross Creek Ranch 60', Fulshear | | | 2013 |  | 35 |  | 13 |  | 22 |  | 4 |  | 9 | $370 - $465 | |  |
| Cross Creek Ranch 65', Fulshear | | | 2013 |  | 61 |  | 47 |  | 14 |  | 4 |  | 14 | $429 - $488 | |  |
| Cross Creek Ranch 70', Fulshear | | | 2013 |  | 100 |  | 70 |  | 30 |  | 5 |  | 10 | $485 - $548 | |  |
| Cross Creek Ranch 80', Fulshear | | | 2013 |  | 68 |  | 63 |  | 5 |  | 2 |  | 10 | $551 - $666 | |  |
| Cross Creek Ranch 90', Fulshear | | | 2013 |  | 28 |  | 22 |  | 6 |  | 4 |  | 10 | $654 - $718 | |  |
| Villas at Cross Creek Ranch, Fulshear | | | 2013 |  | 101 |  | 101 |  | — | | — | | 1 | $454 - $496 | |  |
| Fulshear Run, Richmond | | | 2016 |  | 45 |  | 11 |  | 34 |  | 4 |  | 10 | $562 - $668 | |  |
| Harvest Green 75', Richmond | | | 2015 |  | 21 |  | 16 |  | 5 |  | 2 |  | 7 | $426 - $500 | |  |
| Sienna Plantation 85', Missouri City | | | 2015 |  | 39 |  | 20 |  | 19 |  | 1 |  | 10 | $546 - $645 | |  |
| Villas at Sienna South, Missouri City | | | 2015 |  | 19 |  | 17 |  | 2 |  | 2 |  | 8 | $383 - $407 | |  |
| Lakes of Bella Terra, Richmond | | | 2013 |  | 109 |  | 109 |  | — | | — | | 8 | $465 - $553 | |  |
| Villas at Aliana, Richmond | | | 2013 |  | 117 |  | 98 |  | 19 |  | 5 |  | 11 | $399 - $451 | |  |
| Riverstone 55', Sugar Land | | | 2013 |  | 97 |  | 97 |  | — | | — | | 1 | $437 - $467 | |  |
| Harris County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Towne Lake Living Views, Cypress | | | 2013 |  | 122 |  | 122 |  | — | | — | | 4 | $468 - $561 | |  |
| The Groves, Humble | | | 2015 |  | 72 |  | 41 |  | 31 |  | 2 |  | 12 | $323 - $524 | |  |
| Lakes of Creekside | | | 2015 |  | 21 |  | 7 |  | 14 |  | 1 |  | 6 | $512 - $585 | |  |
| Bridgeland '80, Cypress | | | 2015 |  | 117 |  | 96 |  | 21 |  | 6 |  | 12 | $522 - $611 | |  |
| Bridgeland Patio, Cypress | | | 2017 |  | 30 |  | 8 |  | 22 |  | 10 |  | 7 | $344 - $413 | |  |
| Bridgeland 70' | | | TBD | | 4 |  | — | | 4 |  | — | | — |  | TBD |  |
| Villas at Bridgeland 50' | | | TBD | | 1 |  | — | | 1 |  | — | | — |  | TBD |  |
| Elyson 70', Cypress | | | 2017 |  | 20 |  | 4 |  | 16 |  | 3 |  | 4 | $454 - $496 | |  |
| Hidden Arbor, Cypress | | | 2015 |  | 129 |  | 66 |  | 63 |  | 26 |  | 42 | $366 - $586 | |  |
| Clear Lake, Houston | | | 2015 |  | 770 |  | 255 |  | 515 |  | 54 |  | 53 | $330 - $655 | |  |
| Montgomery County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Woodtrace, Woodtrace | | | 2014 |  | 39 |  | 26 |  | 13 |  | 3 |  | 8 | $438 - $480 | |  |
| Northgrove, Tomball | | | 2015 |  | 25 |  | 5 |  | 20 |  | — | | 4 | $454 - $498 | |  |
| Bender's Landing Estates, Spring | | | 2014 |  | 104 |  | 50 |  | 54 |  | 11 |  | 11 | $468 - $563 | |  |
| The Woodlands, Creekside Park | | | 2015 |  | 100 |  | 29 |  | 71 |  | 10 |  | 15 | $410 - $624 | |  |
| Waller County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cane Island, Katy | | | 2015 |  | 23 |  | 17 |  | 6 |  | 1 |  | 3 | $525 - $634 | |  |
| Mustang Estates | | | TBD | | 350 |  | — | | 350 |  | — | | — |  | TBD |  |
| Williamson County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Crystal Falls | | | 2016 |  | 29 |  | 7 |  | 22 |  | 8 |  | 4 | $460 - $535 | |  |
| Rancho Sienna 60' | | | 2017 |  | 26 |  | 1 |  | 25 |  | 4 |  | 1 | $350 - $422 | |  |
| Hays County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Belterra 60', Austin | | | 2017 |  | 28 |  | 3 |  | 25 |  | 7 |  | 3 | $375 - $466 | |  |
| Belterra 80', Austin | | | 2016 |  | 37 |  | 14 |  | 23 |  | 5 |  | 8 | $535 - $603 | |  |
| Headwaters, Dripping Springs | | | 2017 |  | 30 |  | 3 |  | 27 |  | 9 |  | 3 | $420 - $479 | |  |
| Travis County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Lakes Edge 70' | | | TBD | | 6 |  | — | | 6 |  | 1 |  | — | $620 - $806 | |  |
| Other: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Avanti Custom Homes | | | 2007 |  | 125 |  | 123 |  | 2 |  | 1 |  | 2 | $480 - $856 | |  |
| **Texas Total** | | |  |  | **3,162** |  | **1,620** |  | **1,542** |  | **213** |  | **343** |  |  |  |
| **Trendmaker Homes Total** | | |  |  | **3,162** |  | **1,620** |  | **1,542** |  | **213** |  | **343** |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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***TRI Pointe Homes***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **Cumulative** | |  |  |  |  | **Homes** |  |  |  |  |
|  |  |  |  |  |  |  | **Homes** | | **Lots** | |  |  | **Delivered** |  |  |  |  |
|  |  |  | **Year of** | | **Total** | | **Delivered** | | **Backlog as of** | | **for the Nine** |  | **Sales Price** | |  |
|  |  |  | **as of** | | **Owned as of** | | **Months Ended** |  |  |
|  |  |  | **First** | | **Number of** | | **September 30,** | | **September 30,** | | **September 30,** | | **September 30,** |  | **Range** | |  |
| **County, Project, City** | | | **Delivery(1)** | | **Lots(2)** | | **2017** |  | **2017(3)** |  | **2017(4)(5)** |  | **2017** |  | **(in thousands)(6)** | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Southern California** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Orange County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Messina, Irvine | | | 2014 |  | 102 |  | 88 |  | 14 |  | 8 |  | 18 | $1,565 | | - $1,710 |  |
| Aria, Rancho Mission Viejo | | | 2016 |  | 151 |  | 82 |  | 69 |  | 17 |  | 34 | $623 | | - $688 |  |
| Aubergine, Rancho Mission Viejo | | | 2016 |  | 66 |  | 38 |  | 28 |  | 24 |  | 15 | $983 - $1,129 | | |  |
| Viridian | | | 2017 |  | 57 |  | — | | 57 |  | — | | — | $855 | | - $920 |  |
| Carlisle 10-Pack Garden Court, Irvine | | | 2017 |  | 74 |  | 8 |  | 66 |  | 39 |  | 8 | $670 | | - $780 |  |
| Sterling Row Townhomes, Irvine | | | 2017 |  | 96 |  | 11 |  | 85 |  | 33 |  | 11 | $574 | | - $754 |  |
| Varenna at Orchard Hills, Irvine | | | 2016 |  | 71 |  | 26 |  | 18 |  | 13 |  | 18 | $1,170 | | - $1,235 |  |
| Alston, Anaheim | | | 2017 |  | 75 |  | — | | 75 |  | 19 |  | — | $805 | | - $850 |  |
| StrataPointe, Buena Park | | | 2017 |  | 149 |  | 10 |  | 139 |  | 55 |  | 10 | $515 | | - $656 |  |
| Cadence Park | | | 2018 |  | 70 |  | — | | 70 |  | — | | — |  | TBD | |  |
| San Diego County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Prism at Weston | | | 2018 |  | 142 |  | — | | 142 |  | — | | — | $585 | | - $620 |  |
| Talus at Weston | | | 2018 |  | 63 |  | — | | 63 |  | — | | — | $680 | | - $705 |  |
| Riverside County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Kite Ridge, Riverside | | | 2014 |  | 87 |  | 87 |  | — | | — | | 25 | $472 | | - $500 |  |
| Serrano Ridge at Sycamore Creek, Riverside | | | 2015 |  | 87 |  | 87 |  | — | | — | | 24 | $403 | | - $429 |  |
| Terrassa Court, Corona | | | 2015 |  | 94 |  | 51 |  | 43 |  | 29 |  | 38 | $421 | | - $474 |  |
| Terrassa Villas, Corona | | | 2015 |  | 52 |  | 14 |  | 38 |  | — | | 8 | $453 | | - $495 |  |
| Los Angeles County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Grayson at Five Knolls, Santa Clarita | | | 2015 |  | 119 |  | 89 |  | 30 |  | 16 |  | 40 | $559 | | - $586 |  |
| VuePointe, El Monte | | | 2017 |  | 102 |  | — | | 102 |  | 22 |  | — | $452 | | - $552 |  |
| Bradford @ Rosedale, Azusa | | | 2017 |  | 52 |  | 5 |  | 22 |  | 13 |  | 5 | $816 | | - $871 |  |
| Golden Valley/ Lucera at Aliento | | | 2017 |  | 67 |  | 6 |  | 61 |  | 16 |  | 6 | $622 | | - $645 |  |
| Golden Valley/Tierno at Aliento | | | 2017 |  | 63 |  | 8 |  | 55 |  | 20 |  | 8 | $667 | | - $695 |  |
| Sonrisa | | | 2017 |  | 155 |  | — | | 155 |  | — | | — |  | TBD | |  |
| San Bernardino County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Sedona at Parkside, Ontario | | | 2015 |  | 152 |  | 140 |  | 12 |  | 12 |  | 48 | $405 | | - $443 |  |
| Kensington at Park Place, Ontario | | | 2015 |  | 67 |  | 67 |  | — | | — | | 22 | $507 | | - $539 |  |
| St. James at Park Place, Ontario | | | 2015 |  | 125 |  | 89 |  | 36 |  | 29 |  | 38 | $514 | | - $544 |  |
| Ventura County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| The Westerlies, Oxnard | | | 2015 |  | 116 |  | 95 |  | 21 |  | 21 |  | 50 | $435 | | - $552 |  |
| **Southern California Total** | | |  |  | **2,454** |  | **1,001** |  | **1,401** |  | **386** |  | **426** |  |  |  |  |
| **Northern California** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Contra Costa County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Berkshire at Barrington, Brentwood | | | 2014 |  | 123 |  | 122 |  | 1 |  | — | | 16 | $508 | | - $587 |  |
| Hawthorne at Barrington, Brentwood | | | 2014 |  | 105 |  | 103 |  | 2 |  | 1 |  | 9 | $572 | | - $620 |  |
| Marquette at Barrington, Brentwood | | | 2015 |  | 90 |  | 64 |  | 26 |  | 9 |  | 20 | $695 | | - $730 |  |
| Wynstone at Barrington, Brentwood | | | 2017 |  | 92 |  | 19 |  | 73 |  | 18 |  | 19 | $480 | | - $634 |  |
| Santa Clara County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Derose, Morgan Hill | | | 2018 |  | 65 |  | — | | 65 |  | — | | — | $600 | | - $820 |  |
| Solano County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Redstone, Vacaville | | | 2015 |  | 141 |  | 91 |  | 50 |  | 16 |  | 31 | $470 | | - $533 |  |
| Green Valley-Lewis, Fairfield | | | 2018 |  | 91 |  | — | | 91 |  | — | | — | $510 | | - $550 |  |
| Green Valley-Westgate, Fairfield | | | 2018 |  | 56 |  | — | | 56 |  | — | | — | $555 | | - $599 |  |
| San Joaquin County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Ventana, Tracy | | | 2015 |  | 93 |  | 85 |  | 8 |  | 4 |  | 29 | $457 | | - $557 |  |
| Sundance, Mountain House | | | 2015 |  | 113 |  | 102 |  | 11 |  | 5 |  | 28 | $595 | | - $675 |  |
| Sundance II, Mountain House | | | 2018 |  | 138 |  | — | | 138 |  | 8 |  | — | $600 | | - $710 |  |

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Alameda County:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Cadence, Alameda Landing | 2015 | 91 |  | 77 |  | 14 |  | 13 |  | 15 | $1,182 | - $1,390 |
| Linear, Alameda Landing | 2015 | 106 |  | 69 |  | 37 |  | 15 |  | 5 | $769 - $1,020 | |
| Symmetry, Alameda Landing | 2016 | 56 |  | 51 |  | 5 |  | — | | 25 | $865 | - $950 |
| Commercial, Alameda Landing |  | 2 |  | — | | 2 |  | — | | — | $620 | |
| Parasol, Fremont | 2016 | 39 |  | 39 |  | — | | — | | 15 | $770 - $1,050 | |
| Blackstone at the Cannery, Hayward SFA | 2016 | 105 |  | 40 |  | 65 |  | 32 |  | 16 | $626 - $726 | |
| Blackstone at the Cannery, Hayward SFD | 2016 | 52 |  | 47 |  | 5 |  | 8 |  | 28 | $709 - $769 | |
| Coopers Place, Livermore | 2017 | 31 |  | 2 |  | 29 |  | 18 |  | 2 | $660 - $670 | |
| Slate at Jordan Ranch, Dublin | 2017 | 56 |  | 2 |  | 54 |  | 12 |  | 2 | $1,050 - $1,169 | |
| Onyx at Jordan Ranch, Dublin | 2017 | 105 |  | — | | 105 |  | 8 |  | — | $875 - $925 | |
| Jordan Ranch II, Dublin | 2018 | 45 |  | — | | 45 |  | — | | — | $855 - $1,035 | |
| Mission Stevenson, Fremont | 2018 | 77 |  | — | | 77 |  | — | | — | $675 - $965 | |
| Palm Avenue, Fremont | 2018 | 31 |  | — | | 31 |  | — | | — | $2,080 - $2,235 | |
| Pleasant Hill | 2018 | 44 |  | — | | 44 |  | — | | — | TBD | |
| Sacramento County: |  |  |  |  |  |  |  |  |  |  |  |  |
| Natomas | 2018 | 94 |  | — | | 94 |  | — | | — | TBD | |
| **Northern California Total** |  | **2,041** |  | **913** |  | **1,128** |  | **167** |  | **260** |  |  |
| **California Total** |  | **4,495** |  | **1,914** |  | **2,529** |  | **553** |  | **686** |  |  |
| **Colorado** |  |  |  |  |  |  |  |  |  |  |  |  |
| Douglas County: |  |  |  |  |  |  |  |  |  |  |  |  |
| Terrain 4000 Series, Castle Rock | 2013 | 149 |  | 147 |  | 2 |  | — | | 5 | $358 - $411 | |
| Terrain 3500 Series, Castle Rock | 2015 | 67 |  | 64 |  | 3 |  | — | | — | $327 | - $350 |
| Terrain Ravenwood Village (3500) | 2017 | 157 |  | — | | 88 |  | 7 |  | — | $379 | - $426 |
| Terrain Ravenwood Village (4000) | 2017 | 100 |  | — | | 38 |  | 5 |  | — | $400 | - $463 |
| Jefferson County: |  |  |  |  |  |  |  |  |  |  |  |  |
| Leyden Rock 5000 Series, Arvada | 2015 | 67 |  | 67 |  | — | | — | | 3 | $454 | - $509 |
| Candelas 6000 Series, Arvada | 2015 | 76 |  | 40 |  | 36 |  | 19 |  | 19 | $534 | - $671 |
| Candelas 3500 Series, Arvada | 2016 | 97 |  | 22 |  | 75 |  | 18 |  | 18 | $405 | - $467 |
| Candelas 5000 Series, Arvada | 2017 | 62 |  | — | | 62 |  | 12 |  | — | $510 | - $564 |
| Crown Pointe, Westminster | 2018 | 64 |  | — | | 64 |  | — | | — | $415 | - $486 |
| Larimer County: |  |  |  |  |  |  |  |  |  |  |  |  |
| Centerra 5000 Series, Loveland | 2015 | 79 |  | 63 |  | 16 |  | 9 |  | 24 | $411 - $469 | |
| Arapahoe County: |  |  |  |  |  |  |  |  |  |  |  |  |
| Whispering Pines, Aurora | 2015 | 115 |  | 19 |  | 96 |  | 21 |  | 16 | $589 | - $656 |
| Adams County: |  |  |  |  |  |  |  |  |  |  |  |  |
| Amber Creek, Thornton | 2017 | 121 |  | 13 |  | 108 |  | 15 |  | 12 | $386 | - $469 |
| **Colorado Total** |  | **1,154** |  | **435** |  | **588** |  | **106** |  | **97** |  |  |
| **TRI Pointe Total** |  | **5,649** |  | **2,349** |  | **3,117** |  | **659** |  | **783** |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

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***Winchester Homes***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **Cumulative** | |  |  |  |  | **Homes** |  |  |  |  |
|  |  |  |  |  |  |  | **Homes** | | **Lots** | |  |  | **Delivered** |  |  |  |  |
|  |  |  | **Year of** | | **Total** | | **Delivered** | | **Backlog as of** |  | **for the Nine** |  | **Sales Price** | |  |
|  |  |  | **as of** | | **Owned as of** | |  | **Months Ended** |  |  |
|  |  |  | **First** | | **Number of** | | **September 30,** | | **September 30,** | | **September 30,** |  | **September 30,** |  | **Range** | |  |
| **County, Project, City** | | | **Delivery(1)** | | **Lots(2)** | | **2017** |  | **2017(3)** |  | **2017(4)(5)** |  | **2017** |  | **(in thousands)(6)** | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Maryland** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Anne Arundel County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Two Rivers Townhomes, Crofton | | | 2017 |  | 36 |  | — | | 36 |  | 17 |  | — | $440 | | - $520 |  |
| Two Rivers Cascades SFD, Crofton | | | 2018 |  | 7 |  | — | | 7 |  | — |  | — | $600 | | - $620 |  |
| Watson's Glen, Millersville | | | 2015 |  | 103 |  | 4 |  | 99 |  | — |  | — |  | Closed | |  |
| Frederick County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Landsdale, Monrovia | | |  |  | — | |  |  |  |  |  |  |  |  |  |  |  |
| Landsdale SFD | | | 2015 |  | 222 |  | 69 |  | 153 |  | 26 |  | 29 | $495 | | - $597 |  |
| Landsdale Townhomes | | | 2015 |  | 100 |  | 33 |  | 67 |  | 12 |  | 7 | $320 | | - $378 |  |
| Landsdale TND Neo SFD | | | 2015 |  | 77 |  | 25 |  | 52 |  | 5 |  | 11 | $440 | | - $473 |  |
| Montgomery County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cabin Branch, Clarksburg | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cabin Branch SFD | | | 2014 |  | 359 |  | 123 |  | 236 |  | 33 |  | 32 | $480 - $745 | | |  |
| Cabin Branch Avenue Townhomes | | | 2017 |  | 121 |  | 1 |  | 120 |  | 16 |  | 1 | $425 | | - $485 |  |
| Cabin Branch Townhomes | | | 2014 |  | 507 |  | 192 |  | 315 |  | 22 |  | 61 | $391 - $435 | | |  |
| Preserve at Stoney Spring | | | N/A | | 5 |  | — | | 5 |  | — |  | — |  | N/A | |  |
| Poplar Run, Silver Spring | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Poplar Run SFD | | | 2010 |  | 305 |  | 270 |  | 35 |  | 19 |  | 21 | $562 - $786 | | |  |
| Poplar Run Single Family Neos | | | 2016 |  | 29 |  | 26 |  | 3 |  | 1 |  | 11 | $545 - $635 | | |  |
| Potomac Highlands, Potomac | | | 2017 |  | 23 |  | 5 |  | 18 |  | 7 | # | 5 | $1,191 - $1,289 | | |  |
| Glenmont MetroCenter, Silver Spring | | | 2016 |  | 171 |  | 20 |  | 151 |  | 17 |  | 13 | $435 - $513 | | |  |
| Chapman Row, Rockville | | | 2018 |  | 61 |  | — | | 61 |  | — |  | — |  | TBD | |  |
| Closed Communities | | | N/A | | — | | — | | — | | — |  | 1 |  |  |  |  |
| **Maryland Total** | | |  |  | **2,126** |  | **768** |  | **1,358** |  | **175** |  | **192** |  |  |  |  |
| **Virginia** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Fairfax County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Stuart Mill & Timber Lake, Oakton | | | 2014 |  | 14 |  | 8 |  | 6 |  | 4 |  | 1 | $1,363 | | - $1,675 |  |
| Stuart Mill, Oakton | | | N/A | | 5 |  | — | | 5 |  | — |  | — |  | N/A | |  |
| Westgrove, Fairfax | | | 2018 |  | 24 |  | — | | 24 |  | — |  | — |  | TBD | |  |
| West Oaks Corner | | | 2019 |  | 188 |  | — | | 188 |  | — |  | — |  | TBD | |  |
| Prince William County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Villages of Piedmont, Haymarket | | | 2015 |  | 168 |  | 84 |  | 84 |  | 31 |  | 35 | $370 | | - $440 |  |
| Loudoun County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Brambleton, Ashburn | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| West Park SFD | | | 2018 |  | 12 |  | — | | 12 |  | 4 |  | — | $708 | | - $724 |  |
| Vistas at Lansdowne, Lansdowne | | | 2015 |  | 120 |  | 52 |  | 68 |  | 17 |  | 14 | $574 | | - $674 |  |
| Willowsford Grant II, Aldie | | | 2017 |  | 29 |  | 7 |  | 22 |  | 5 |  | 7 | $1,000 | | - $1,326 |  |
| Willowsford Greens | | | N/A | | 5 |  | — | | 5 |  | — |  | — |  | N/A | |  |
| Closed Communities | | | N/A | | — | | — | | — | | — |  | 16 |  |  |  |  |
| **Virginia Total** | | |  |  | **565** |  | **151** |  | **414** |  | **61** |  | **73** |  |  |  |  |
| **Winchester Total** | | |  |  | **2,691** |  | **919** |  | **1,772** |  | **236** |  | **265** |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Combined Company Total** | | |  |  | **33,832** |  | **8,777** |  | **24,803** |  | **2,265** |  | **2,940** |  |  |  |  |
| \_\_\_\_\_\_\_\_\_\_ | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. Year of first delivery for future periods is based upon management’s estimates and is subject to change.
2. The number of homes to be built at completion is subject to change, and there can be no assurance that we will build these homes.
3. Owned lots as of September 30, 2017 include owned lots in backlog as of September 30, 2017.
4. Backlog consists of homes under sales contracts that had not yet been delivered, and there can be no assurance that delivery of sold homes will occur.
5. Of the total homes subject to pending sales contracts that have not been delivered as of September 30, 2017, 1,695 homes are under construction, 278 homes have completed construction, and 292 homes have not started construction.
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1. Sales price range reflects base price only and excludes any lot premium, buyer incentives and buyer-selected options, which may vary from project to project. Sales prices for homes required to be sold pursuant to affordable housing requirements are excluded from sales price range. Sales prices reflect current pricing and might not be indicative of past or future pricing.

**Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations is based on our unaudited condensed consolidated financial statements contained elsewhere in this report, which have been prepared in accordance with GAAP. Our condensed notes to the unaudited consolidated financial statements contained elsewhere in this report and the audited financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2016 describe the significant accounting policies essential to our unaudited condensed consolidated financial statements. The preparation of our financial statements requires our management to make estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions that we have used are appropriate and correct based on information available at the time they were made. These estimates, judgments and assumptions can affect our reported assets and liabilities as of the date of the financial statements, as well as the reported revenues and expenses during the period presented. If there is a material difference between these estimates, judgments and assumptions and actual facts, our financial statements may be affected.

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require our judgment in its application. There are areas in which our judgment in selecting among available alternatives would not produce a materially different result, but there are some areas in which our judgment in selecting among available alternatives would produce a materially different result. See the condensed notes to the unaudited consolidated financial statements that contain additional information regarding our accounting policies and other disclosures.

**Recently Issued Accounting Standards**

See Note 1, *Organization, Basis of Presentation and Summary of Significant Accounting Policies*, to the accompanying condensed notes to unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q.

**Item 3.** **Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to market risks related to fluctuations in interest rates on our outstanding debt. We did not utilize swaps, forward or option contracts on interest rates or commodities, or other types of derivative financial instruments as of or during the nine months ended September 30, 2017. We did not enter into during the nine months ended September 30, 2017, and currently do not hold, derivatives for trading or speculative purposes.

**Item 4.** **Controls and Procedures**

We have established disclosure controls and procedures to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and accumulated and communicated to management, including the Chief Executive Officer (the “Principal Executive Officer”) and Chief Financial Officer (the “Principal Financial Officer”), as appropriate, to allow timely decisions regarding required disclosure. Under the supervision and with the participation of senior management, including our Principal Executive Officer and Principal Financial Officer, we evaluated our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2017.

Our management, including our Principal Executive Officer and Principal Financial Officer, has evaluated our internal control over financial reporting to determine whether any change occurred during the nine months ended September 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the nine months ended September 30, 2017.

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**PART II. OTHER INFORMATION**

**Item 1.** **Legal Proceedings**

The information required with respect to this item can be found under Note 13, *Commitments and Contingencies-Legal Matters*, of the accompanying condensed notes to unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q and is incorporated by reference into this Item 1.

**Item 1A.** **Risk Factors**

*The following supplements and updates the risk factors in Part I, Item 1A “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2016. If any of the risks discussed below or in our Annual Report on Form 10-K occur, our business, prospects, liquidity, financial condition and results of operations could be materially and adversely affected, in which case the trading price of our common stock could decline significantly and you could lose all or a part of your investment. Some statements in this Quarterly Report on Form 10-Q, including statements in the following risk factor, constitute forward-looking statements. Please refer to Part I, Item 2 of this Quarterly Report on Form 10-Q entitled “Cautionary Note Concerning Forward-Looking Statements.”*

**Risks Related to Our Business**

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

Several other homebuilders have received inquiries from regulatory agencies concerning whether homebuilders using contractors are deemed to be employers of the employees of such contractors under certain circumstances. Although contractors are independent of the homebuilders that contract with them under normal management practices and the terms of trade contracts and subcontracts within the homebuilding industry, if regulatory agencies reclassify the employees of contractors as employees of homebuilders, homebuilders using contractors could be responsible for wage and hour labor laws, employment discrimination, workers’ compensation and other employment-related liabilities of their contractors. A 2015 National Labor Relations Board ruling held that for labor law purposes a firm could under some circumstances be responsible as a joint employer of its contractors' employees. This ruling has been appealed and legislation has been introduced to limit joint-employer liability. If the ruling is not overturned on appeal, limited by legislation, or revisited by the National Labor Relations Board, it could make us responsible for collective bargaining obligations and labor law violations by our subcontractors. Governmental rulings that make us responsible for labor practices by our subcontractors could create substantial exposures for us in situations that are not within our control. Even if we are not deemed to be joint employers with our contractors, we may be subject to legislation, such as California Labor Code Section 2810.3 that requires us to share liability with our contractors for the payment of wages and the failure to secure valid workers’ compensation coverage. In addition, California’s Governor recently signed legislation, AB 1701, that will require direct construction contractors to assume and be liable for unpaid wages, fringe or other benefit payments or contributions, including interest, incurred by a subcontractor at any tier for contracts entered into on or after January 1, 2018. While we are still analyzing the ultimate impact this legislation could have on our business, we believe it may result in increased costs. While we attempt to pass on cost increases to homebuyers through increased prices, we may be unable to offset cost increases with higher selling prices.

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

On February 28, 2017, we announced that our board of directors approved the 2017 Repurchase Program, authorizing the repurchase of shares of common stock with an aggregate value of up to $100 million through March 31, 2018. On July 25, 2017 our board of directors authorized the repurchase of up to an additional $50 million of our common stock under the 2017 Repurchase Program, increasing the aggregate authorization from $100 million to $150 million. Purchases of common stock pursuant to the 2017 Repurchase Program may be made in open market transactions effected through a broker-dealer at prevailing market prices, in block trades, or by other means in accordance with federal securities laws, including pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Exchange Act. We are not obligated under the 2017 Repurchase Program to repurchase any specific number or amount of shares of common stock, and we may modify, suspend or discontinue the program at any time. Our management will determine the timing and amount of repurchase in its discretion based on a variety of factors, such as the market price of our common stock, corporate requirements, general market economic conditions and legal requirements.

During the three months ended September 30, 2017, we repurchased and retired the following shares pursuant to our 2017 Repurchase Program:

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|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Total number of shares** |  | **Approximate dollar** |  |
|  | **Total number of shares** | **Average price paid per** | | **purchased as part of** |  | **value of shares that** |  |
|  | **publicly announced** | **may yet be purchased** | |  |
|  | **purchased** |  | **share** | **program** | **under the program (1)** | |  |
| July 1, 2017 to July 31, 2017 | — | $ | — | — | $ | 50,303,199 |  |
| August 1, 2017 to August 31, 2017 | 310,000 | $ | 12.84 | 310,000 | $ | 46,321,839 |  |
|  |  |  |  |  |  |  |  |
| September 1, 2017 to September 30, 2017 | 665,700 | $ | 12.83 | 665,700 | $ | 37,783,295 |  |
| Total | 975,700 | $ | 12.83 | 975,700 |  |  |  |



\_\_\_\_\_\_\_\_\_\_

1. During the three months ended September 30, 2017, we repurchased and retired an aggregate of 975,700 shares of our common stock for $12,519,904.
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|  |  |  |
| --- | --- | --- |
| **Item 6.** | | **Exhibits** |
| Exhibit | |  |
| Number | | Exhibit Description |
| [3.1](http://www.sec.gov/Archives/edgar/data/1561680/000119312515246892/d25110dex31.htm) | | Amended and Restated Certificate of Incorporation of TRI Pointe Group, Inc. (incorporated by reference to Exhibit 3.1 to the Company's |
|  |  | Current Report on Form 8-K (filed July 7, 2015)) |
| [3.2](http://www.sec.gov/Archives/edgar/data/1561680/000156168016000038/arbylawsoftripointegroup-f.htm) | | Amended and Restated Bylaws of TRI Pointe Group, Inc. (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on |
|  |  | Form 8-K (filed October 27, 2016)) |
| [31.1](#page65) | | Chief Executive Officer Section 302 Certification of the Sarbanes-Oxley Act of 2002 |
|  |  |  |
| [31.2](#page66) | | Chief Financial Officer Section 302 Certification of the Sarbanes-Oxley Act of 2002 |
|  |  |  |
| [32.1](#page67) | | Chief Executive Officer Section 906 Certification of the Sarbanes-Oxley Act of 2002 |
|  |  |  |
| [32.2](#page68) | | Chief Financial Officer Section 906 Certification of the Sarbanes-Oxley Act of 2002 |
|  |  |  |

1. The following materials from TRI Pointe Group, Inc.’s Quarterly Report on Form 10-Q for the nine months ended September 30, 2017, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations,
   1. Consolidated Statements of Comprehensive Income, (iv) Consolidated Statement of Cash Flows, and (v) Condensed Notes to Consolidated Financial Statement.
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**SIGNATURES**

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

TRI Pointe Group, Inc.

By: /s/ Douglas F. Bauer



Douglas F. Bauer

Chief Executive Officer

By: /s/ Michael D. Grubbs



Michael D. Grubbs

Chief Financial Officer

Date: October 25, 2017

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**Exhibit 31.1**

**SECTION 302 CERTIFICATION**

I, Douglas F. Bauer, certify that:

1. I have reviewed this report on Form 10-Q of TRI Pointe Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   1. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   2. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   3. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   4. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   1. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
6. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: October 25, 2017 /s/ Douglas F. Bauer



Douglas F. Bauer

Chief Executive Officer (Principal Executive Officer)

**Exhibit 31.2**

**SECTION 302 CERTIFICATION**

I, Michael D. Grubbs, certify that:

1. I have reviewed this report on Form 10-Q of TRI Pointe Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
5. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
6. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   1. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   2. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
7. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   1. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
8. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: October 25, 2017 /s/ Michael D. Grubbs



Michael D. Grubbs

Chief Financial Officer (Principal Financial Officer)

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Report of TRI Pointe Group, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Douglas F. Bauer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C.

* 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:
  1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
  2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 25, 2017 /s/ Douglas F. Bauer



Douglas F. Bauer

Chief Executive Officer (Principal Executive Officer)

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Report of TRI Pointe Group, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael D. Grubbs, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C.

* 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:
  1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
  2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 25, 2017 /s/ Michael D. Grubbs



Michael D. Grubbs

Chief Financial Officer (Principal Financial Officer)