**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, 2018**

**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 x No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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 x Accelerated filer

Non-accelerated filer ☐ Smaller reporting company

Emerging Growth Company

☐

☐

☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No x 142,202,313 shares of common stock were issued and outstanding as of October 15, 2018.

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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, 2018**

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| --- | --- | --- | --- | --- | --- | --- | --- |
| **PART I. FINANCIAL INFORMATION** | |  |  |  |  |  |  |
| **Item 1.** | **Financial Statements** |  |  |  |  |  |  |
|  | **TRI POINTE GROUP, INC.** |  |  |  |  |  |  |
|  | **CONSOLIDATED BALANCE SHEETS** |  |  |  |  |  |  |
|  | **(in thousands, except share and per share amounts)** |  |  |  |  |  |  |
|  |  |  | **September 30, 2018** |  |  | **December 31, 2017** |  |
|  |  |  | (unaudited) | |  |  |  |
| **Assets** |  |  |  |  |  |  |  |
| Cash and cash equivalents | | $ | 83,086 |  | $ | 282,914 |  |
|  | |  |  |  |  |  |  |
| Receivables | |  | 85,026 |  |  | 125,600 |  |
| Real estate inventories | |  | 3,377,735 |  |  | 3,105,553 |  |
|  | |  |  |  |  |  |  |
| Investments in unconsolidated entities | |  | 4,275 |  |  | 5,870 |  |
| Goodwill and other intangible assets, net | |  | 160,560 |  |  | 160,961 |  |
|  | |  |  |  |  |  |  |
| Deferred tax assets, net | |  | 59,113 |  |  | 76,413 |  |
| Other assets | |  | 107,309 |  |  | 48,070 |  |
|  | |  |  |  |  |  |  |
| Total assets | | $ | 3,877,104 |  | $ | 3,805,381 |  |
| **Liabilities** | |  |  |  |  |  |  |
|  |  |  |  |  |  |
|  | |  |  |  |  |  |  |
| Accounts payable | | $ | 83,711 |  | $ | 72,870 |  |
| Accrued expenses and other liabilities | |  | 313,194 |  |  | 330,882 |  |
|  | |  |  |  |  |  |  |
| Unsecured revolving credit facility | |  | 100,000 |  |  | — |  |
| Senior notes, net | |  | 1,419,198 |  |  | 1,471,302 |  |
|  | |  |  |  |  |  |  |
| Total liabilities | |  | 1,916,103 |  |  | 1,875,054 |  |
|  |  |  |  |  |  |  |  |
| 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, 2018 and |  |  |  |  |  |  |
|  | December 31, 2017, respectively |  | — | |  | — |  |
| Common stock, $0.01 par value, 500,000,000 shares authorized; | |  |  |  |  |  |  |
|  | 142,202,313 and 151,162,999 shares issued and outstanding at |  |  |  |  |  |  |
|  | September 30, 2018 and December 31, 2017, respectively |  | 1,422 |  |  | 1,512 |  |
|  | |  |  |  |  |  |  |
| Additional paid-in capital | |  | 661,570 |  |  | 793,980 |  |
| Retained earnings | |  | 1,297,405 |  |  | 1,134,230 |  |
|  | |  |  |  |  |  |  |
| Total stockholders’ equity | |  | 1,960,397 |  |  | 1,929,722 |  |
| Noncontrolling interests | |  | 604 |  |  | 605 |  |
|  | |  |  |  |  |  |  |
| Total equity | |  | 1,961,001 |  |  | 1,930,327 |  |
| Total liabilities and equity | | $ | 3,877,104 |  | $ | 3,805,381 |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |

*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,** | | | |
|  |  | **2018** |  |  | **2017** |  |  | **2018** |  |  | **2017** |
| **Homebuilding:** |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Home sales revenue | $ | 771,768 |  | $ | 648,638 |  | $ | 2,123,135 |  | $ | 1,609,458 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Land and lot sales revenue |  | 2,225 |  |  | 68,218 |  |  | 3,966 |  |  | 69,661 |
| Other operations revenue |  | 598 |  |  | 584 |  |  | 1,795 |  |  | 1,752 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Total revenues |  | 774,591 |  |  | 717,440 |  |  | 2,128,896 |  |  | 1,680,871 |
| Cost of home sales |  | 607,053 |  |  | 521,918 |  |  | 1,661,651 |  |  | 1,294,563 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Cost of land and lot sales |  | 2,234 |  |  | 12,001 |  |  | 4,163 |  |  | 13,299 |
| Other operations expense |  | 590 |  |  | 575 |  |  | 1,781 |  |  | 1,726 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Sales and marketing |  | 44,854 |  |  | 33,179 |  |  | 128,881 |  |  | 92,209 |
| General and administrative |  | 38,109 |  |  | 32,956 |  |  | 111,406 |  |  | 101,293 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Homebuilding income from operations |  | 81,751 |  |  | 116,811 |  |  | 221,014 |  |  | 177,781 |
| Equity in income (loss) of unconsolidated entities |  | 15 |  |  | — | |  | (384) |  |  | 1,646 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Other (expense) income, net |  | (477) |  |  | 26 |  |  | (379) |  |  | 147 |
| Homebuilding income before income taxes |  | 81,289 |  |  | 116,837 |  |  | 220,251 |  |  | 179,574 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Financial Services:** |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Revenues |  | 480 |  |  | 295 |  |  | 1,154 |  |  | 881 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Expenses |  | 125 |  |  | 82 |  |  | 391 |  |  | 233 |
| Equity in income of unconsolidated entities |  | 1,986 |  |  | 1,351 |  |  | 4,972 |  |  | 2,911 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Financial services income before income taxes |  | 2,341 |  |  | 1,564 |  |  | 5,735 |  |  | 3,559 |
| **Income before income taxes** |  | 83,630 |  |  | 118,401 |  |  | 225,986 |  |  | 183,133 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Provision for income taxes |  | (19,661) |  |  | (46,112) |  |  | (55,457) |  |  | (69,824) |
| Net income |  | 63,969 |  |  | 72,289 |  |  | 170,529 |  |  | 113,309 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Net income attributable to noncontrolling interests |  | — | |  | (25) |  |  | — | |  | (138) |
| Net income available to common stockholders | $ | 63,969 |  | $ | 72,264 |  | $ | 170,529 |  | $ | 113,171 |
| Earnings per share |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Basic | $ | 0.43 |  | $ | 0.48 |  | $ | 1.13 |  | $ | 0.73 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Diluted | $ | 0.43 |  | $ | 0.48 |  | $ | 1.13 |  | $ | 0.73 |
| Weighted average shares outstanding |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Basic |  | 147,725,074 |  |  | 151,214,744 |  |  | 150,377,472 |  |  | 155,238,206 |
| Diluted |  | 148,318,032 |  |  | 152,129,825 |  |  | 151,482,456 |  |  | 155,936,076 |

*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** | |  | **Stock** | |  | **Capital** | |  | **Earnings** | |  | **Equity** | |  | **Interests** | |  | **Equity** |
| Balance at December 31, 2016 | 158,626,229 |  | $ | 1,586 |  | $ | 880,822 |  | $ | 947,039 |  | $ | 1,829,447 |  | $ | 19,063 |  | $ | 1,848,510 |
| Net income | — | |  | — | |  | — | |  | 187,191 |  |  | 187,191 |  |  | 360 |  |  | 187,551 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Shares issued under share-based |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| awards | 1,531,475 |  |  | 16 |  |  | 12,275 |  |  | — | |  | 12,291 |  |  | — | |  | 12,291 |
| Minimum tax withholding paid on |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| behalf of employees for restricted |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| stock units | — | |  | — | |  | (2,896) |  |  | — | |  | (2,896) |  |  | — | |  | (2,896) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Stock-based compensation expense | — | |  | — | |  | 15,906 |  |  | — | |  | 15,906 |  |  | — | |  | 15,906 |
| Share repurchases | (8,994,705) |  |  | (90) |  |  | (112,127) |  |  | — | |  | (112,217) |  |  | — | |  | (112,217) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Distributions to noncontrolling |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| interests, net | — | |  | — | |  | — | |  | — | |  | — | |  | (1,333) |  |  | (1,333) |
| Net effect of consolidations, de- |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| consolidations and other |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| transactions | — | |  | — | |  | — | |  | — | |  | — | |  | (17,485) |  |  | (17,485) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at December 31, 2017 | 151,162,999 |  |  | 1,512 |  |  | 793,980 |  |  | 1,134,230 |  |  | 1,929,722 |  |  | 605 |  |  | 1,930,327 |
| Cumulative effect of accounting |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| change (Note 1) | — | |  | — | |  | — | |  | (7,354) |  |  | (7,354) |  |  | — | |  | (7,354) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income | — | |  | — | |  | — | |  | 170,529 |  |  | 170,529 |  |  | — | |  | 170,529 |
| Shares issued under share-based |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| awards | 891,323 |  |  | 9 |  |  | 1,934 |  |  | — | |  | 1,943 |  |  | — | |  | 1,943 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Minimum tax withholding paid on |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| behalf of employees for restricted |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| stock units | — | |  | — | |  | (6,049) |  |  | — | |  | (6,049) |  |  | — | |  | (6,049) |
| Stock-based compensation expense | — | |  | — | |  | 10,955 |  |  | — | |  | 10,955 |  |  | — | |  | 10,955 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Share repurchases | (9,852,009) |  |  | (99) |  |  | (139,250) |  |  | — | |  | (139,349) |  |  | — | |  | (139,349) |
| Distributions to noncontrolling |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| interests, net | — | |  | — | |  | — | |  | — | |  | — | |  | (1) |  |  | (1) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at September 30, 2018 | 142,202,313 |  | $ | 1,422 |  | $ | 661,570 |  | $ | 1,297,405 |  | $ | 1,960,397 |  | $ | 604 |  | $ | 1,961,001 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

*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,** | | | |
|  |  | **2018** |  |  | **2017** |
| **Cash flows from operating activities:** |  |  |  |  |  |
| Net income | $ | 170,529 |  | $ | 113,309 |
|  |  |  |  |  |  |
| Adjustments to reconcile net income to net cash used in operating activities: |  |  |  |  |  |
| Depreciation and amortization |  | 19,581 |  |  | 2,567 |
|  |  |  |  |  |  |
| Equity in income of unconsolidated entities, net |  | (4,588) |  |  | (4,557) |
| Deferred income taxes, net |  | 19,729 |  |  | 14,559 |
|  |  |  |  |  |  |
| Amortization of stock-based compensation |  | 10,955 |  |  | 11,631 |
| Charges for impairments and lot option abandonments |  | 1,500 |  |  | 1,203 |
|  |  |  |  |  |  |
| Changes in assets and liabilities: |  |  |  |  |  |
| Real estate inventories |  | (315,825) |  |  | (401,322) |
|  |  |  |  |  |  |
| Receivables |  | 40,612 |  |  | (3,263) |
| Other assets |  | (14,486) |  |  | 3,894 |
|  |  |  |  |  |  |
| Accounts payable |  | 10,841 |  |  | (6,214) |
| Accrued expenses and other liabilities |  | (17,716) |  |  | 52,640 |
|  |  |  |  |  |  |
| Returns on investments in unconsolidated entities, net |  | 6,778 |  |  | 4,897 |
| Net cash used in operating activities |  | (72,090) |  |  | (210,656) |
|  |  |  |  |  |  |
| **Cash flows from investing activities:** |  |  |  |  |  |
| Purchases of property and equipment |  | (24,547) |  |  | (2,212) |
|  |  |  |  |  |  |
| Proceeds from sale of property and equipment |  | 8 |  |  | 6 |
| Investments in unconsolidated entities |  | (1,812) |  |  | (934) |
|  |  |  |  |  |  |
| Net cash used in investing activities |  | (26,351) |  |  | (3,140) |
| **Cash flows from financing activities:** |  |  |  |  |  |
|  |  |  |  |  |  |
| Borrowings from debt |  | 100,000 |  |  | 500,000 |
| Repayment of debt |  | (57,931) |  |  | (213,726) |
|  |  |  |  |  |  |
| Debt issuance costs |  | — | |  | (5,932) |
| Distributions to noncontrolling interests |  | (1) |  |  | (987) |
|  |  |  |  |  |  |
| Proceeds from issuance of common stock under share-based awards |  | 1,943 |  |  | 3,293 |
| Minimum tax withholding paid on behalf of employees for share-based awards |  | (6,049) |  |  | (2,896) |
|  |  |  |  |  |  |
| Share repurchases |  | (139,349) |  |  | (112,217) |
| Net cash (used in) provided by financing activities |  | (101,387) |  |  | 167,535 |
|  |  |  |  |  |  |
| Net decrease in cash and cash equivalents |  | (199,828) |  |  | (46,261) |
| Cash and cash equivalents - beginning of period |  | 282,914 |  |  | 208,657 |
|  |  |  |  |  |  |
| Cash and cash equivalents - end of period | $ | 83,086 |  | $ | 162,396 |
|  |  |  |  |  |  |

*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 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, 2017. 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 and nine months ended September 30, 2018 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, 2018 and December 31, 2017 represent the outside owners’ interests in the Company’s consolidated entities. All significant intercompany accounts have been eliminated upon consolidation.

**Use of Estimates**

Our financial statements have been prepared in accordance with GAAP. The preparation of these 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.

**Significant Accounting Policies Update**

*Revenue Recognition*

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Codified as “ASC 606”). 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. 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. We have adopted and applied this updated revenue recognition policy as of January 1, 2018. See *Adoption of New Accounting Standards* below.

The majority of our revenue is related to fixed-price contracts to deliver completed homes to homebuyers, and to a much lesser degree, to deliver land or lots to other homebuilders or real estate developers. We generally deliver completed homes to homebuyers and land and lots to other homebuilders or real estate developers when all closing conditions are met, including the passage of title and the receipt of consideration, and the collection of associated receivables, if any, is reasonably assured. When it is determined that there are uncompleted performance obligations, the transaction price and the related profit for those uncompleted performance obligations are deferred for recognition in future periods based on the principles of ASC 606. The

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most common examples of uncompleted performance obligations are unfinished pools or outdoor landscaping features that are unable to be completed due to weather or other circumstances.

Following the adoption of ASC 606, the timing of revenue recognition for all of our contracts remained materially consistent with our historical revenue recognition policy due to the nature of our revenue generating activities, with the most common difference under ASC 606 relating to the deferral of revenue due to these uncompleted performance obligations at the time we deliver new homes to our homebuyers.

When we enter into a contract with a homebuyer, we sometimes receive a nonrefundable deposit that is recognized as revenue under circumstances in which a contract is canceled by the homebuyer. These amounts are recognized as home sales revenue at the time a contract is canceled by the homebuyer. We have not experienced significant contract modifications impacting the timing of revenue recognition under ASC 606, nor will we be required to use estimates in the application of the core revenue recognition principles.

*Real Estate Inventories and Cost of Sales*

ASC 606 includes Subtopic 340-40, *Other Assets and Deferred Costs - Contracts with Customers* (“Subtopic 340-40”), which requires the deferral of incremental costs of obtaining a contract with a customer. The adoption of Subtopic 340-40 impacts the timing of recognition and classification in our consolidated financial statements of certain sales office, model and other marketing related costs that we incur to obtain sales contracts from our customers. For example, we historically capitalized to inventory and amortized through cost of home sales various sales office, model and other marketing related costs with each home delivered in a community. Under Subtopic 340-40, these costs are expensed when incurred or capitalized to other assets and amortized to selling expense.

**Recently Issued Accounting Standards Not Yet Adopted**

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases* (Codified as “ASC 842”), which requires an entity to recognize assets and liabilities on the balance sheet for the rights and obligations created by leases with durations of greater than 12 months, but record expenses on the statements of operations in a manner similar to current accounting. The guidance also requires more disclosures about leases in the notes to consolidated financial statements. 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 continuing to evaluate the impact that the adoption of ASC 842 may have on our consolidated financial statements and disclosures. While the adoption of ASC 842 could have a material impact on our consolidated balance sheet, we do not expect that there will be a material impact to our consolidated statements of operations or cash flows.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the* *Accounting for Goodwill Impairment* (“ASU 2017-04”), which removes the requirement to perform a hypothetical purchase price allocation to measuregoodwill impairment. 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 will have a material impact on our financial statements.

**Adoption of New Accounting Standards**

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, *Statement of Cash Flows (Topic 230)*: *Classification of Certain Cash* *Receipts and Cash Payments* (“ASU 2016-15”)*,* which provides guidance on how certain cash receipts and cash payments are to be presented and classified inthe statement of cash flows. We adopted ASU 2016-15 on January 1, 2018 and our adoption did not have a material impact on our consolidated financial statements.

On January 1, 2018, we adopted ASC 606 using the modified retrospective approach applying the method of presenting the standard of ASC 606 to only those contracts not considered completed under legacy GAAP. As a result of this application of ASC 606, no prior period results have been recast and the standard has been applied prospectively as of January 1, 2018. The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet resulting from the adoption of ASC 606 was as follows (in thousands):

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Balance at December 31, 2017** | |  | **Adjustments due to ASC 606** | |  | **Balance at January 1, 2018** |
| **Assets** |  |  |  |  |  |  |  |  |
| Real estate inventories | $ | 3,105,553 |  | $ | (49,317) |  | $ | 3,056,236 |
|  |  |  |  |  |  |  |  |  |
| Deferred income tax asset |  | 76,413 |  |  | 2,429 |  |  | 78,842 |
| Other assets |  | 48,070 |  |  | 39,534 |  |  | 87,604 |
|  |  |  |  |  |  |  |  |  |
| **Equity** |  |  |  |  |  |  |  |  |
| Retained earnings |  | 1,134,230 |  |  | (7,354) |  |  | 1,126,876 |

Our cumulative adjustment to retained earnings on January 1, 2018 related primarily to the impact of Subtopic 340-40 and the timing of recognition and classification in our consolidated financial statements of certain sales office, model and other marketing related costs that we incur to obtain sales contracts from our customers. See *Significant Accounting Policies Update* above.

In accordance with ASC 606 disclosure requirements, the impact of adopting ASC 606 on our consolidated statements of operations and balance sheets for the three and nine months ended September 30, 2018 were as follows (in thousands, except per share amounts):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  | **Three Months Ended September 30, 2018** | | | | | | | | |  |  | **Nine Months Ended September 30, 2018** | | | | | | |  |
|  |  |  |  |  |  |  |  |  |  |  | **Balances Without** | | | | **Effect of Change** | |  |  |  |  | **Balances Without** | | | **Effect of Change** | |  |
|  |  |  |  |  |  |  |  | **As Reported** |  |  | **Adoption of ASC** | | | |  |  | **As Reported** | | **Adoption of ASC** | | |  |
|  |  |  |  |  |  |  |  |  |  |  | **606** |  |  |  | **Higher/(Lower)** |  |  |  | **606** |  |  | **Higher/(Lower)** |  |
| **Statements of Operations** | | | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Revenues** | | | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Home sales | | | | | | $ | 771,768 | $ | | | 771,784 |  |  | $ | (16) | $ | | 2,123,135 |  | $ | 2,123,387 |  | $ | (252) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Costs and expenses** | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Cost of home sales | | | | | |  | 607,053 |  |  |  | 617,483 |  |  |  | (10,430) |  |  | 1,661,651 |  |  | 1,689,324 |  |  | (27,673) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Sales and marketing | | | | | |  | 44,854 |  |  |  | 38,506 |  |  |  | 6,348 |  |  | 128,881 |  |  | 109,346 |  |  | 19,535 |  |
|  | Provision for income taxes | | | | | |  | (19,661) |  |  |  | (18,683) |  |  |  | 978 |  |  | (55,457) |  |  | (53,518) |  |  | 1,939 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Net income | | | | | |  | 63,969 |  |  |  | 60,881 |  |  |  | 3,088 |  |  | 170,529 |  |  | 164,582 |  |  | 5,947 |  |
| Diluted earnings per share | | | | | | | $ | 0.43 | $ | | | 0.41 |  |  | $ | 0.02 | $ | | 1.13 |  | $ | 1.09 |  | $ | 0.04 |  |
|  |  |  |  |  |  |  |  |  | **As of September 30, 2018** | | | | | |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  | **Balances Without** | | | | **Effect of Change** | |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  | **As Reported** |  |  | **Adoption of ASC** | | | |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  | **606** |  |  |  | **Higher/(Lower)** |  |  |  |  |  |  |  |  |  |  |
| **Balance Sheet** | | | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Assets** | | | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Real estate inventories | | | | | | $ | 3,377,735 | $ | | | 3,424,468 |  |  | $ | (46,733) |  |  |  |  |  |  |  |  |  |  |
| Deferred tax assets, net | | | | | | |  | 59,113 |  |  |  | 54,750 |  |  |  | 4,363 |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Other assets | | | | | |  | 107,309 |  |  |  | 63,874 |  |  |  | 43,435 |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Liabilities** | | | |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Accrued expenses and other liabilities | | | | | |  | 313,194 |  |  |  | 313,442 |  |  |  | (248) |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Equity** | | | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Retained earnings | | | | | |  | 1,297,405 |  |  |  | 1,296,092 |  |  |  | 1,313 |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  | - 9 - |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

***Contracts with Customers***

In consideration of the appropriate revenue recognition for our contracts with customers, we first assessed our ordinary operations in order to capture all revenue transactions with a counter-party appropriately considered a customer. Historically, our ordinary homebuilding revenue generating activities have included contracts with homebuyers to deliver completed homes and to a much lesser extent, contracts with other homebuilders or real estate developers to deliver land or lots in exchange for consideration. The majority of our homebuilding contracts with customers typically include a single performance obligation, which is the transfer of control of the real estate property when all closing conditions are met.

In addition to our core homebuilding operations, we undertake service operations with customers in the form of our financial services reportable segment (“TRI Pointe Solutions”), which is comprised of our mortgage financing operations, title services operations and property and casualty insurance agency operations. Our mortgage financing operation (“TRI Pointe Connect”) can act as a preferred mortgage broker to our homebuyers in all of the markets in which we operate. TRI Pointe Connect was formed as a joint venture with an established mortgage lender and is accounted for under the equity method of accounting. Our title services operation (“TRI Pointe Assurance”) provides title examinations for our homebuyers in Texas, Maryland and Virginia. TRI Pointe Assurance is a wholly owned subsidiary of TRI Pointe and acts as a title agency for First American Title Insurance Company. Our property and casualty insurance agency operations (“TRI Pointe Advantage”) is a wholly owned subsidiary of TRI Pointe that provides property and casualty insurance agency services that help facilitate the closing process in all of the markets in which we operate.

We do not currently have any long-term contracts with customers. ASC 606 provides certain practical expedients that limit some of the accounting treatments and disclosure requirements existing under this accounting standard. We do not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

***Disaggregation of Revenues***

We generate revenues from a mix of homebuilding operations and financial services operations. Due to the nature of our revenue generating activities, the disaggregated revenue reported on our consolidated statement of operations, in conjunction with the revenues reported in our segment disclosure, is deemed sufficient to report revenue from contracts with customers in accordance with the disaggregation disclosure requirements of ASC 606. We report total revenues in Note 2, *Segment Information*, which is fully comprised of our revenues from contracts with customers. While the total homebuilding revenues by segment include a mix of home sales revenue, land and lot sales revenue and other operations revenue, all material revenue amounts outside of home sales revenue are attributed to their respective homebuilding segments in the discussion below. Our consideration of disaggregated revenue consisted of a variety of facts and circumstances pertaining to our contracts with customers. These considerations included the nature, amounts, timing and other characteristics and economic factors present within each revenue line item appearing on our consolidated statement of operations. See below for further commentary regarding each of our revenue streams from contracts with customers.

*Home sales revenue*

We generate the majority of our total revenue from home sales, which consists of our core business operation of building and delivering completed homes to homebuyers. Included in home sales revenue are forfeited deposits, which occur when homebuyers cancel home purchase contracts that include a nonrefundable deposit. Both revenue from forfeited deposits and deferred revenue resulting from uncompleted performance obligations existing at the time we deliver new homes to our homebuyers is immaterial.

*Land and lot sales revenue*

Historically, we have generated land and lot sales revenue from a small number of transactions, although in some years we have realized a significant amount of revenue and gross margin. We do not expect our future land and lot sales revenue to be material, but we still consider these sales to be an ordinary part of our business, thus meeting the definition of contracts with customers. Similar to our home sales, revenue from land and lot sales is typically fully recognized when the land and lot sales transactions are consummated, at which time no further performance obligations are left to be satisfied. Some of our historical land and lot sales have included future profit participation rights. We will recognize future land and lot sales revenue in the periods in which all closing conditions are met, subject to the constraint on variable consideration related to profit participation rights, if such rights exist in the sales contract.

*Other operations revenue*

The majority of our other homebuilding operations revenue relates to a ground lease at our Quadrant Homes reporting segment. We are responsible for making lease payments to the land owner, and we collect sublease payments from the buyers of the buildings. This ground lease is accounted for in accordance with ASC Topic 840, *Leases*. We do not recognize a material profit on this ground lease.

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*Financial services revenues*

TRI Pointe Solutions is a reportable segment and is comprised of our TRI Pointe Connect mortgage financing operations, TRI Pointe Assurance title services operations, and TRI Pointe Advantage property and casualty insurance agency operations.

*Mortgage financing operations*

TRI Pointe Connect was formed as a joint venture with an established mortgage lender and is accounted for under the equity method of accounting. Based on our percentage stake in this joint venture, we record a percentage of income earned by TRI Pointe Connect. Revenue by TRI Pointe Connect is recognized in the period in which the home sales transactions are consummated. TRI Pointe Connect does not have a history of uncollectable amounts from these operations. TRI Pointe Connect activity appears as equity in income of unconsolidated entities under the Financial Services section of our consolidated statements of operations.

*Title services operations*

TRI Pointe Assurance provides title examinations for our homebuyers in Texas, Maryland and Virginia. TRI Pointe Assurance is a wholly owned subsidiary of TRI Pointe and acts as a title agency for First American Title Insurance Company. At the time of the consummation of the home sales transactions, we recognize a percentage of revenue captured by First American Title Insurance Company. We do not have a history of uncollectable amounts from these operations. TRI Pointe Assurance revenue is included in the Financial Services section of our consolidated statements of operations.

*Property and casualty insurance agency operations*

TRI Pointe Advantage is a wholly owned subsidiary of TRI Pointe and provides property and casualty insurance agency services that help facilitate the closing process in all of the markets in which we operate. These operations began in February, 2018 and have not generated a material amount of revenue. We expect revenue from these operations to increase as customers use these services to procure homeowners insurance, with further revenue potential as customers renew their insurance coverages beyond the initial coverage periods. The total consideration for these services, including renewal options, is estimated upon the issuance of the initial insurance policy, subject to constraint. TRI Pointe Advantage revenue is included in the Financial Services section of our consolidated statements of operations.

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 these factors, our homebuilding operations are comprised of the following six reportable segments: Maracay, 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 TRI Pointe Solutions financial services operation is a reportable segment and is comprised of our TRI Pointe Connect mortgage financing operations, our TRI Pointe Assurance title services operations, and our TRI Pointe Advantage property and casualty insurance agency operations. For further details, see Note 1, *Organization, Basis of Presentation and Summary of Significant Accounting Policies.*

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,* *Basis of Presentation and Summary of Significant Accounting Policies*. Operational results of each

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reportable segment are not necessarily indicative of the results that would have been achieved had the reportable segment been an independent, stand-alone entity during the periods presented.

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,** | | | |
|  |  | **2018** |  |  | **2017** |  |  | **2018** |  |  | **2017** |
| Revenues |  |  |  |  |  |  |  |  |  |  |  |
| Maracay | $ | 66,730 |  | $ | 78,167 |  | $ | 182,134 |  | $ | 204,981 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Pardee Homes |  | 224,452 |  |  | 231,376 |  |  | 648,208 |  |  | 495,452 |
| Quadrant Homes |  | 66,174 |  |  | 54,781 |  |  | 193,481 |  |  | 135,599 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Trendmaker Homes |  | 78,606 |  |  | 53,787 |  |  | 197,730 |  |  | 171,615 |
| TRI Pointe Homes |  | 264,499 |  |  | 239,110 |  |  | 710,561 |  |  | 524,159 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Winchester Homes |  | 74,130 |  |  | 60,219 |  |  | 196,782 |  |  | 149,065 |
| Total homebuilding revenues |  | 774,591 |  |  | 717,440 |  |  | 2,128,896 |  |  | 1,680,871 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Financial services |  | 480 |  |  | 295 |  |  | 1,154 |  |  | 881 |
| Total | $ | 775,071 |  | $ | 717,735 |  | $ | 2,130,050 |  | $ | 1,681,752 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Income (loss) before income taxes |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Maracay | $ | 6,260 |  | $ | 6,431 |  | $ | 15,665 |  | $ | 14,429 |
| Pardee Homes |  | 36,087 |  |  | 82,407 |  |  | 122,195 |  |  | 128,570 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Quadrant Homes |  | 9,269 |  |  | 6,251 |  |  | 25,206 |  |  | 13,104 |
| Trendmaker Homes |  | 7,379 |  |  | 3,233 |  |  | 13,977 |  |  | 9,657 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| TRI Pointe Homes |  | 30,945 |  |  | 24,382 |  |  | 69,651 |  |  | 39,779 |
| Winchester Homes |  | 4,122 |  |  | 4,284 |  |  | 9,908 |  |  | 6,903 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Corporate |  | (12,773) |  |  | (10,151) |  |  | (36,351) |  |  | (32,868) |
| Total homebuilding income before income taxes |  | 81,289 |  |  | 116,837 |  |  | 220,251 |  |  | 179,574 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Financial services |  | 2,341 |  |  | 1,564 |  |  | 5,735 |  |  | 3,559 |
| Total | $ | 83,630 |  | $ | 118,401 |  | $ | 225,986 |  | $ | 183,133 |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | - 12 - |  |  |  |  |  |  |  |  |  |

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, 2018** | |  | **December 31, 2017** |
| Real estate inventories |  |  |  |  |  |
| Maracay | $ | 308,887 |  | $ | 243,883 |
|  |  |  |  |  |  |
| Pardee Homes |  | 1,361,960 |  |  | 1,245,659 |
| Quadrant Homes |  | 312,645 |  |  | 257,887 |
|  |  |  |  |  |  |
| Trendmaker Homes |  | 223,576 |  |  | 204,926 |
| TRI Pointe Homes |  | 872,137 |  |  | 855,727 |
|  |  |  |  |  |  |
| Winchester Homes |  | 298,530 |  |  | 297,471 |
| Total | $ | 3,377,735 |  | $ | 3,105,553 |
|  |  |  |  |  |  |
| Total assets |  |  |  |  |  |
|  |  |  |  |  |  |
| Maracay | $ | 330,998 |  | $ | 268,866 |
| Pardee Homes |  | 1,450,432 |  |  | 1,346,296 |
|  |  |  |  |  |  |
| Quadrant Homes |  | 336,665 |  |  | 312,803 |
| Trendmaker Homes |  | 250,728 |  |  | 224,995 |
|  |  |  |  |  |  |
| TRI Pointe Homes |  | 1,069,085 |  |  | 1,062,920 |
| Winchester Homes |  | 324,668 |  |  | 313,921 |
|  |  |  |  |  |  |
| Corporate |  | 97,651 |  |  | 262,740 |
| Total homebuilding assets |  | 3,860,227 |  |  | 3,792,541 |
|  |  |  |  |  |  |
| Financial services |  | 16,877 |  |  | 12,840 |
| Total | $ | 3,877,104 |  | $ | 3,805,381 |
|  |  |  |  |  |  |

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,** | | | |  |
|  |  |  | **2018** |  |  | **2017** |  |  | **2018** |  |  | **2017** |  |
| Numerator: |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income available to common stockholders | $ | | 63,969 |  | $ | 72,264 |  | $ | 170,529 |  | $ | 113,171 |  |
| Denominator: |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic weighted-average shares outstanding |  |  | 147,725,074 |  |  | 151,214,744 |  |  | 150,377,472 |  |  | 155,238,206 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Effect of dilutive shares: |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Stock options and unvested restricted stock units |  |  | 592,958 |  |  | 915,081 |  |  | 1,104,984 |  |  | 697,870 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Diluted weighted-average shares outstanding |  |  | 148,318,032 |  |  | 152,129,825 |  |  | 151,482,456 |  |  | 155,936,076 |  |
| Earnings per share |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic |  | $ | 0.43 |  | $ | 0.48 |  | $ | 1.13 |  | $ | 0.73 |  |
| Diluted |  |  |  |  |  |  |  |  |  |  |  |  |  |
| $ | | 0.43 |  | $ | 0.48 |  | $ | 1.13 |  | $ | 0.73 |  |
|  | |  |  |  |  |  |  |  |  |  |  |  |  |
| Antidilutive stock options and unvested restricted stock units not included in | |  | 2,008,612 |  |  | 3,406,498 |  |  | 1,280,500 |  |  | 3,710,674 |  |
| diluted earnings per share |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | - 13 - | |  |  |  |  |  |  |  |  |  |  |  |

1. **Receivables**

Receivables consisted of the following (in thousands):

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **September 30, 2018** | |  | **December 31, 2017** |
| Escrow proceeds and other accounts receivable, net | $ | 49,738 |  | $ | 89,783 |
| Warranty insurance receivable (Note 13) |  | 35,288 |  |  | 35,817 |
|  |  |  |  |  |  |
| Total receivables | $ | 85,026 |  | $ | 125,600 |
|  |  |  |  |  |  |

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 $540,000 and $330,000 as of September 30, 2018 and December 31, 2017, respectively.

1. **Real Estate Inventories**

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **September 30, 2018** | |  | **December 31, 2017** |
| Real estate inventories owned: |  |  |  |  |  |
| Homes completed or under construction | $ | 1,190,986 |  | $ | 793,685 |
|  |  |  |  |  |  |
| Land under development |  | 1,663,818 |  |  | 1,934,556 |
| Land held for future development |  | 201,108 |  |  | 138,651 |
|  |  |  |  |  |  |
| Model homes |  | 258,401 |  |  | 211,658 |
| Total real estate inventories owned |  | 3,314,313 |  |  | 3,078,550 |
|  |  |  |  |  |  |
| Real estate inventories not owned: |  |  |  |  |  |
| Land purchase and land option deposits |  | 63,422 |  |  | 27,003 |
|  |  |  |  |  |  |
| Total real estate inventories not owned |  | 63,422 |  |  | 27,003 |
| Total real estate inventories | $ | 3,377,735 |  | $ | 3,105,553 |
|  |  |  |  |  |  |

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. The real estate inventories owned balance was impacted by our one-time cumulative adjustment entry resulting from the adoption of ASC 606. As a result of our cumulative adjustment, the December 31, 2017 balance decreased by $49.3 million on January 1, 2018. For further details, see Note 1, *Organization, Basis of Presentation and Summary of Significant Accounting Policies.*

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*.

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

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended September 30,** | | | | |  | **Nine Months Ended September 30,** | | | |
|  |  | **2018** |  |  | **2017** |  |  | **2018** |  |  | **2017** |
| Interest incurred | $ | 23,942 |  | $ | 22,865 |  | $ | 67,089 |  | $ | 61,669 |
| Interest capitalized |  | (23,942) |  |  | (22,865) |  |  | (67,089) |  |  | (61,669) |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Interest expensed | $ | — | | $ | — | | $ | — | | $ | — |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Capitalized interest in beginning inventory | $ | 185,589 |  | $ | 173,261 |  | $ | 176,348 |  | $ | 157,329 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Interest capitalized as a cost of inventory |  | 23,942 |  |  | 22,865 |  |  | 67,089 |  |  | 61,669 |
| Interest previously capitalized as a cost of |  |  |  |  |  |  |  |  |  |  |  |
| inventory, included in cost of sales |  | (20,293) |  |  | (15,899) |  |  | (54,199) |  |  | (38,771) |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Capitalized interest in ending inventory | $ | 189,238 |  | $ | 180,227 |  | $ | 189,238 |  | $ | 180,227 |
|  |  |  |  |  |  |  |  |  |  |  |  |

Interest is capitalized to real estate inventory during development and other qualifying activities. During all periods presented, we capitalized all interest incurred to real estate inventory in accordance with ASC Topic 835, *Interest,* as our qualified assets exceeded our debt. 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 (expense) 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,** | | | |
|  | **2018** |  |  | **2017** |  |  |  | **2018** |  |  | **2017** |
| Real estate inventory impairments | $ | — | | $ | — | | $ | — | | $ | 267 |
| Land and lot option abandonments and pre-acquisition charges |  | 643 |  |  | 374 |  |  | 1,500 |  |  | 936 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Total | $ | 643 |  | $ | 374 |  | $ | 1,500 |  | $ | 1,203 |
|  |  |  |  |  |  |  |  |  |  |  |  |

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.

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1. **Investments in Unconsolidated Entities**

As of September 30, 2018, we held equity investments in four 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 4% to 65%, depending on the investment, with no controlling interest held in any of these investments.

***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, 2018** | |  | **December 31, 2017** |
| Limited liability company interests | $ | 1,563 |  | $ | 2,687 |
| General partnership interests |  | 2,712 |  |  | 3,183 |
|  |  |  |  |  |  |
| Total | $ | 4,275 |  | $ | 5,870 |
|  |  |  |  |  |  |

***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, 2018** | |  | **December 31, 2017** |
| Assets |  |  |  |  |  |
| Cash | $ | 11,627 |  | $ | 11,678 |
|  |  |  |  |  |  |
| Receivables |  | 3,990 |  |  | 6,564 |
| Real estate inventories |  | 98,961 |  |  | 99,997 |
|  |  |  |  |  |  |
| Other assets |  | 825 |  |  | 936 |
| Total assets | $ | 115,403 |  | $ | 119,175 |
|  |  |  |  |  |  |
| Liabilities and equity |  |  |  |  |  |
| Accounts payable and other liabilities | $ | 9,116 |  | $ | 12,208 |
|  |  |  |  |  |  |
| Company’s equity |  | 4,275 |  |  | 5,870 |
| Outside interests' equity |  | 102,012 |  |  | 101,097 |
|  |  |  |  |  |  |
| Total liabilities and equity | $ | 115,403 |  | $ | 119,175 |
|  |  |  |  |  |  |

Results of operations from unconsolidated entities (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended September 30,** | | | |  |  |  | **Nine Months Ended September 30,** | | | |
|  | **2018** |  |  | **2017** |  |  |  | **2018** |  |  | **2017** |
| Net sales | $ | 6,185 |  | $ | 5,404 |  | $ | 19,900 |  | $ | 15,722 |
| Other operating expense |  | (2,951) |  |  | (3,532) |  |  | (13,510) |  |  | (9,714) |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Other income |  | 1 |  |  | 36 |  |  | 85 |  |  | 60 |
| Net income | $ | 3,235 |  | $ | 1,908 |  | $ | 6,475 |  | $ | 6,068 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Company’s equity in income of unconsolidated entities | $ | 2,001 |  | $ | 1,351 |  | $ | 4,588 |  | $ | 4,557 |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | |  |  |  |  |  |  |  |  |  |
|  | - 16 - | |  |  |  |  |  |  |  |  |  |

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. These deposits are recorded as land purchase and land option deposits under real estate inventories not owned on the accompanying consolidated balance sheets.

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 generally 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. Additionally, we have entered into land banking arrangements which require us to complete development work even if we terminate the option to procure land or lots.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **September 30, 2018** | | |  |  |  |  |  |  | **December 31, 2017** | | |  |  |  |
|  |  |  |  |  |  | |  |  |  |  |  |  |  |  | |  |  |  |
|  |  |  |  |  | **Remaining** | |  | **Consolidated** | |  |  |  |  | **Remaining** | |  | **Consolidated** |  |
|  |  | **Deposits** |  |  | **Purchase** | |  | **Inventory** | |  | **Deposits** |  |  | **Purchase** | |  | **Inventory** |  |
|  |  |  | **Price** |  |  | **Held by VIEs** |  |  |  | **Price** |  |  | **Held by VIEs** |  |
| Consolidated VIEs | $ | — | | $ | — | | $ | — | | $ | — | | $ | — | | $ | — |  |
| Unconsolidated VIEs |  | 35,348 |  |  | 229,219 |  |  | N/A | |  | 3,418 |  |  | 112,590 |  |  | N/A |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Other land option agreements |  | 28,074 |  |  | 503,583 |  |  | N/A |  |  | 23,585 |  |  | 269,349 |  |  | N/A |  |
| Total | $ | 63,422 |  | $ | 732,802 |  | $ | — |  | $ | 27,003 |  | $ | 381,939 |  | $ | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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 $8.9 million and $4.5 million as of September 30, 2018 and December 31, 2017, 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, 2018 and December 31, 2017, $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, 2018, comprised of an existing trade name from the acquisition of Maracay 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.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **September 30, 2018** | | |  |  |  |  |  |  | **December 31, 2017** | | |  |  |  |
|  |  |  | |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |
|  |  | **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 |  |  | (6,723) |  |  | 21,256 |  |  | 27,979 |  |  | (6,322) |  |  | 21,657 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total | $ | 167,283 |  | $ | (6,723) |  | $ | 160,560 |  | $ | 167,283 |  | $ | (6,322) |  | $ | 160,961 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

The remaining useful life of our amortizing intangible asset related to the Maracay trade name was 7.4 and 8.2 years as of September 30, 2018 and

December 31, 2017, respectively. The net carrying amount related to this intangible asset was $4.0 million and $4.4 million as of September 30, 2018 and

December 31, 2017, respectively. Amortization expense related to this intangible asset was $134,000 for each of the three-month periods ended

September 30, 2018 and 2017, respectively, and $401,000 for each of the nine-month periods ended September 30, 2018 and 2017, 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 for the remainder of 2018, the next four years and thereafter is (in thousands):

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Remainder of 2018 | |  | $ | |  |  | 133 |  |
| 2019 |  |  |  |  |  |  | 534 |  |
|  |  |  |  |  |  |  |  |  |
| 2020 |  |  |  |  |  |  | 534 |  |
| 2021 |  |  |  |  |  |  | 534 |  |
|  |  |  |  |  |  |  |  |  |
| 2022 |  |  |  |  |  |  | 534 |  |
| Thereafter |  |  |  |  |  |  | 1,687 |  |
|  |  |  |  |  |  |  |  |  |
| Total |  |  | $ | |  |  | 3,956 |  |
| **9.** | **Other Assets** |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Other assets consisted of the following (in thousands): | |  |  |  |  |  |  |  |
|  |  |  | **September 30, 2018** | | |  | **December 31, 2017** |  |
| Prepaid expenses |  | $ | 27,043 | |  | $ | 13,040 |  |
| Refundable fees and other deposits | |  | 16,747 | |  |  | 16,012 |  |
|  | |  |  | |  |  |  |  |
| Development rights, held for future use or sale | |  | 1,741 | |  |  | 2,569 |  |
| Deferred loan costs - unsecured revolving credit facility | |  | 2,675 | |  |  | 3,427 |  |
|  | |  |  | |  |  |  |  |
| Operating properties and equipment, net | |  | 56,259 | |  |  | 10,528 |  |
| Other |  |  | 2,844 | |  |  | 2,494 |  |
|  |  |  |  | |  |  |  |  |
| Total |  | $ | 107,309 | |  | $ | 48,070 |  |
|  |  |  |  |  |  |  |  |  |

Operating properties and equipment, net was impacted by our one-time cumulative adjustment resulting from the adoption of ASC 606. As a result of our cumulative adjustment, the December 31, 2017 balance increased by $39.5 million on January 1, 2018. For further details, see Note 1, *Organization, Basis of* *Presentation and Summary of Significant Accounting Policies*.

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1. **Accrued Expenses and Other Liabilities**

Accrued expenses and other liabilities consisted of the following (in thousands):

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **September 30, 2018** | |  | **December 31, 2017** |
| Accrued payroll and related costs | $ | 28,856 |  | $ | 36,863 |
| Warranty reserves (Note 13) |  | 73,995 |  |  | 69,373 |
|  |  |  |  |  |  |
| Estimated cost for completion of real estate inventories |  | 102,225 |  |  | 105,864 |
| Customer deposits |  | 26,811 |  |  | 19,568 |
|  |  |  |  |  |  |
| Income tax liability to Weyerhaeuser |  | 8,321 |  |  | 7,706 |
| Accrued income taxes payable |  | — | |  | 30,672 |
|  |  |  |  |  |  |
| Liability for uncertain tax positions (Note 15) |  | 1,458 |  |  | 1,458 |
| Accrued interest |  | 23,146 |  |  | 11,014 |
|  |  |  |  |  |  |
| Accrued insurance expense |  | 5,444 |  |  | 1,187 |
| Other tax liability |  | 24,647 |  |  | 33,671 |
|  |  |  |  |  |  |
| Other |  | 18,291 |  |  | 13,506 |
| Total | $ | 313,194 |  | $ | 330,882 |
|  |  |  |  |  |  |

1. **Senior Notes and Unsecured Revolving Credit Facility**

***Senior Notes***

The Company's outstanding senior notes (together, the "Senior Notes") consisted of the following (in thousands):

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **September 30, 2018** | |  | **December 31, 2017** |
| 4.375% | Senior Notes due June 15, 2019 | $ | 392,069 |  | $ | 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 |  |  | 300,000 |
|  | |  |  |  |  |  |
| Discount and deferred loan costs | |  | (22,871) |  |  | (28,698) |
| Total |  | $ | 1,419,198 |  | $ | 1,471,302 |
|  |  |  |  |  |  |  |

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. During the three and nine months ended September 30, 2018, respectively, we repurchased and cancelled an aggregate principal amount of $36.2 million and $57.9 million of the 2019 Notes.

As of September 30, 2018, there was $15.8 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 $21.9 million and $10.6 million as of September 30, 2018 and December 31, 2017, respectively.

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***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 Credit 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, 2018, we had $100 million outstanding under the Credit Facility and $486.8 million of availability after considering the borrowing base provisions and outstanding letters of credit. As of September 30, 2018, there was $2.7 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, including loan commitment fees, related to the Credit Facility was $575,000 and $426,000 as of September 30, 2018 and December 31, 2017, respectively.

At September 30, 2018 and December 31, 2017, we had outstanding letters of credit of $13.2 million and $7.7 million, respectively. 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.

***Interest Incurred***

During the three months ended September 30, 2018 and 2017, the Company incurred interest of $23.9 million and $22.9 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 for each of the three-month periods ended September 30, 2018 and 2017, respectively. During the nine-month periods ended September 30, 2018 and 2017, the Company incurred interest of $67.1 million and $61.7 million, respectively, related to all debt during the period. Included in interest incurred was amortization of deferred financing and Senior Notes discount costs of $6.1 million and $5.6 million for the nine months ended September 30, 2018 and 2017, respectively. Accrued interest related to all outstanding debt at September 30, 2018 and December 31, 2017 was $23.1 million and $11.0 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, 2018 and December 31, 2017.

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, 2018 and December 31, 2017, related to our financial instruments, measured at fair value on a recurring basis, is set forth below (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **September 30, 2018** | | | |  |  | **December 31, 2017** | | | |
|  | **Hierarchy** |  |  | **Book Value** |  |  | **Fair Value** |  |  | **Book Value** |  |  | **Fair Value** |
| Senior Notes (1) | Level 2 | | $ | 1,435,036 |  | $ | 1,406,819 |  | $ | 1,491,229 |  | $ | 1,552,335 |
| \_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. The book value of the Senior Notes is net of discounts, excluding deferred loan costs of $15.8 million and $19.9 million as of September 30, 2018 and December 31, 2017, respectively. The estimated fair value of the Senior Notes at September 30, 2018 and December 31, 2017 is based on quoted market prices.

At September 30, 2018 and December 31, 2017, the carrying value of cash and cash equivalents, receivables and the Credit Facility approximated fair value due to their short-term nature and variable interest rate terms.

***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, 2018** | | | |  |  | **Year Ended December 31, 2017** | | | |  |
|  |  | **Impairment** | | | **Fair Value** | | | **Impairment** | |  | **Fair Value** |  |
|  |  | **Net of** | | |  | **Net of** |  |
|  |  | **Charge** |  |  | **Impairment** |  |  | **Charge** |  |  | **Impairment** |  |
| Real estate inventories (1) | $ | — $ | | | — $ | | | 854 |  | $ | 12,950 |  |
| \_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |  |  |

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 no legal reserves as of September 30, 2018 or December 31, 2017, respectively.

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

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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. On May 18, 2018, Pardee Homes filed a motion for summary judgment in the action, which had a rescheduled hearing date of September 28, 2018. At the hearing, the court denied the motion for summary judgment. On October 22, 2018, Pardee Homes filed with an appellate court a writ of mandate appealing the trial court's denial of the motion for summary judgment. 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 has no actionable claims against Pardee Homes 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 $35.3 million and $35.8 million as of September 30, 2018 and December 31, 2017, 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,** | | | |
|  | **2018** |  |  |  | **2017** |  |  | **2018** |  |  | **2017** |
| Warranty reserves, beginning of period | $ | 72,342 |  | $ | 80,128 |  | $ | 69,373 |  | $ | 83,135 |
| Warranty reserves accrued |  | 6,257 |  |  | 4,448 |  |  | 17,669 |  |  | 10,122 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Adjustments to pre-existing reserves |  | — | |  | 400 |  |  | — | |  | 1,021 |
| Warranty expenditures |  | (4,604) |  |  | (4,054) |  |  | (13,047) |  |  | (13,356) |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Warranty reserves, end of period | $ | 73,995 |  | $ | 80,922 |  | $ | 73,995 |  | $ | 80,922 |
|  |  |  |  |  |  |  |  |  |  |  |  |

***Performance Bonds***

We obtain surety bonds in the normal course of business to ensure completion of certain infrastructure improvements of our projects. The beneficiaries of the bonds are various municipalities. As of September 30, 2018 and December 31, 2017, the Company had outstanding surety bonds totaling $683.5 million and $627.1 million, respectively. As of September 30, 2018 and December 31, 2017, our estimated cost to complete obligations related to these surety bonds was $398.8 million and $537.4 million, respectively.

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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, 2018, there were 6,453,896 shares available for future grant under the 2013 Incentive Plan.

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,** | | | |
|  | **2018** |  |  |  | **2017** |  |  | **2018** |  |  | **2017** |
| Total stock-based compensation | $ | 3,765 |  | $ | 3,887 |  | $ | 10,955 |  | $ | 11,631 |
|  |  |  |  |  |  |  |  |  |  |  |  |

Stock-based compensation is charged to general and administrative expense on the accompanying consolidated statements of operations. As of September 30, 2018, total unrecognized stock-based compensation related to all stock-based awards was $20.7 million and the weighted average term over which the expense was expected to be recognized was 1.8 years.

***Summary of Stock Option Activity***

The following table presents a summary of stock option awards for the nine months ended September 30, 2018:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Weighted** | | **Weighted** | |  | **Aggregate** |  |
|  |  |  |  | **Average** | | **Average** | |  |  |
|  |  |  |  | **Exercise** | | **Remaining** | |  | **Intrinsic** |  |
|  | **Options** |  |  | **Price** | | **Contractual** | |  | **Value** |  |
|  |  |  | **Per Share** |  | **Life** |  |  | **(in thousands)** |  |
| Options outstanding at December 31, 2017 | 1,154,658 | $ | | 14.16 |  | 4.9 |  | $ | 4,350 |  |
| Granted | — |  |  | — | | — | |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Exercised | (171,747) | $ | | 12.05 |  | — | |  | — |  |
| Forfeited | (29,006) | $ | | 12.73 |  | — | |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Options outstanding at September 30, 2018 | 953,905 | $ | | 14.58 |  | 4.4 |  | $ | 510 |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Options exercisable at September 30, 2018 | 953,905 | $ | | 14.58 |  | 4.4 |  | $ | 510 |  |

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, 2018:

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Weighted** | |  | **Aggregate** |  |
|  | **Restricted** |  |  | **Average** | |  |  |
|  |  |  | **Grant Date** | |  | **Intrinsic** |  |
|  | **Stock** |  |  | **Fair Value** | |  | **Value** |  |
|  | **Units** |  |  | **Per Share** |  |  | **(in thousands)** |  |
| Nonvested RSUs at December 31, 2017 | 4,307,592 | $ | | 9.80 |  | $ | 77,192 |  |
| Granted | 1,131,231 | $ | | 15.77 |  |  | — |  |
|  |  |  |  |  |  |  |  |  |
| Vested | (1,102,727) | $ | | 12.47 |  |  | — |  |
| Forfeited | (993,133) | $ | | 9.40 |  |  | — |  |
|  |  |  |  |  |  |  |  |  |
| Nonvested RSUs at September 30, 2018 | 3,342,963 | $ | | 11.05 |  | $ | 41,453 |  |
|  |  |  |  |  |  |  |  |  |

On April 30, 2018, the Company granted an aggregate of 40,910 RSUs to the non-employee members of its board of directors. On July 23, 2018, the Company granted 6,677 RSUs to a non-employee member of its board of directors in connection with such individual's appointment to the board of directors. These RSUs vest in their entirety on the day immediately prior to the Company's 2019 Annual Meeting of Stockholders. The fair value of each RSU granted on April 30, 2018 and July 23, 2018 was measured using a price of $17.11 and $16.37 per share, respectively, 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 May 7, 2018 and February 22, 2018, the Company granted an aggregate of 4,258 and 633,107, respectively, of time-vested RSUs to certain 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 May 7, 2018 and February 22, 2018 was measured using a price of $17.61 and $16.94 per share, respectively, 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 February 22, 2018, the Company granted 184,179, 177,095, and 85,005 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, 2018 to December 31, 2020. The fair value of the performance-based RSUs related to the TSR metric was determined to be $10.97 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 $16.94 per share, which was the closing stock price on the date of grant. Each award will be expensed over the requisite service period.

On February 15, 2018, the Compensation Committee of our Board of Directors certified the performance achieved with respect to performance-based RSUs granted to the Company’s Chief Executive Officer, President, and Chief Financial Officer in 2015 that resulted in the issuance of 197,898 shares of our common stock under the 2013 Incentive Plan. The vesting of these performance-based RSUs are included in the table above. RSUs that were forfeited, as reflected in the table above, during the nine months ended September 30, 2018 included performance-based RSUs and time-based RSUs that were forfeited for no consideration.

On February 27, 2017, the Company granted an aggregate of 990,279 time-vested RSUs to certain 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 was expensed on a straight-line basis over the vesting period.

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.

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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 vested 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 was 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. **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 $59.1 million and $76.4 million as of September 30, 2018 and December 31, 2017, respectively. We had a valuation allowance related to those net deferred tax assets of $3.5 million as of both September 30, 2018 and December 31, 2017. 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.

TRI Pointe has certain liabilities with Weyerhaeuser Company (“Weyerhaeuser”) related to a tax sharing agreement. As of September 30, 2018 and December 31, 2017, we had an income tax liability to Weyerhaeuser of $8.3 million and $7.7 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 $19.7 million and $46.1 million for the three months ended September 30, 2018 and 2017, respectively. Our provision for income taxes totaled $55.5 million and $69.8 million for the nine months ended September 30, 2018 and 2017, respectively. The Company classifies any interest and penalties related to income taxes assessed by jurisdiction as part of income tax expense. The Company had $1.5 million of uncertain tax positions recorded as of both September 30, 2018 and December 31, 2017. The Company has not been assessed interest or penalties by any major tax jurisdictions related to prior years.

On December 22, 2017, the Tax Cuts and Jobs Act was enacted, reducing the U.S. federal corporate income tax rate from 35% to 21%, among other changes. In December 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provides guidance on accounting for the income tax effects of the Tax Cuts and Jobs Act, for which the accounting under ASC 740 is incomplete. As of September 30, 2018, we have completed our accounting for the tax effects of the Tax Cuts and Jobs Act, however, as there is some uncertainty around the grandfathering provisions related to performance-based executive compensation, we have estimated a provisional amount for the deferred tax assets related to performance-based executive compensation. In addition, we also remeasured the applicable deferred tax assets and liabilities based on the rate at which they are expected to reverse in the future, which is generally 21%. We are still analyzing certain aspects of the Tax Cuts and Jobs Act and refining our calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. In the quarter ended December 31, 2017, the Company recorded an income tax charge of $22.0 million related to the re-measurement of our deferred tax assets related to the Tax Cuts and Jobs Act. The Company recorded a discrete tax benefit of $714,000 for the three months ended September 30, 2018 related to re-measurement of our deferred tax assets related to Tax Cuts and Jobs Act due to favorable provision to return adjustments upon filing of the federal consolidated tax return.

1. **Related Party Transactions**

We had no related party transactions for the nine months ended September 30, 2018 and 2017.

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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,** | | | |
|  |  | **2018** |  |  | **2017** |
| Supplemental disclosure of cash flow information: |  |  |  |  |  |
| Cash paid during the period for: |  |  |  |  |  |
|  |  |  |  |  |  |
| Interest, net of amounts capitalized of $48,862 and $61,669 | $ | — | | $ | — |
| Income taxes | $ | 81,417 |  | $ | 44,784 |
|  |  |  |  |  |  |
| Supplemental disclosures of noncash activities: |  |  |  |  |  |
| Amortization of senior note discount capitalized to real estate inventory | $ | 1,738 |  | $ | 1,525 |
|  |  |  |  |  |  |
| Increase in other assets related to adoption of ASC 606 | $ | 39,534 |  | $ | — |
| Amortization of deferred loan costs capitalized to real estate inventory | $ | 4,841 |  | $ | 4,105 |
|  |  |  |  |  |  |
| Effect of net consolidation and de-consolidation of variable interest entities: |  |  |  |  |  |
| Decrease in consolidated real estate inventory not owned | $ | — | | $ | (14,660) |
|  |  |  |  |  |  |
| Decrease in noncontrolling interests | $ | — | | $ | 14,660 |
|  |  |  |  |  |  |

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

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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, 2018 and December 31, 2017, condensed consolidating statements of operations for the three and nine months ended September 30, 2018 and 2017 and condensed consolidating statement of cash flows for the nine months ended September 30, 2018 and 2017. 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”.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **September 30, 2018** | | | | |  |  |  |
|  |  |  |  |  |  | **Guarantor** | |  | **Consolidating** | |  | **Consolidated** |  |
|  |  |  | **Issuer** | |  |  |  | **TRI Pointe** |  |
|  |  |  |  | **Subsidiaries** | |  | **Adjustments** | |  | **Group, Inc.** |  |
| **Assets** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash and cash equivalents | $ | | 20,230 |  | $ | 62,856 |  | $ | — | | $ | 83,086 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Receivables |  |  | 33,924 |  |  | 51,102 |  |  | — | |  | 85,026 |  |
| Intercompany receivables |  |  | 906,894 |  |  | — | |  | (906,894) |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Real estate inventories |  |  | 872,137 |  |  | 2,505,598 |  |  | — | |  | 3,377,735 |  |
| Investments in unconsolidated entities |  |  | — | |  | 4,275 |  |  | — | |  | 4,275 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Goodwill and other intangible assets, net |  |  | 156,604 |  |  | 3,956 |  |  | — | |  | 160,560 |  |
| Investments in subsidiaries |  |  | 1,577,561 |  |  | — | |  | (1,577,561) |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Deferred tax assets, net |  |  | 13,320 |  |  | 45,793 |  |  | — | |  | 59,113 |  |
| Other assets |  |  | 8,833 |  |  | 98,476 |  |  | — | |  | 107,309 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total assets | $ | | 3,589,503 |  | $ | 2,772,056 |  | $ | (2,484,455) |  | $ | 3,877,104 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Accounts payable | $ | | 13,533 |  | $ | 70,178 |  | $ | — | | $ | 83,711 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Intercompany payables |  |  | — | |  | 906,894 |  |  | (906,894) |  |  | — |  |
| Accrued expenses and other liabilities |  |  | 96,375 |  |  | 216,819 |  |  | — | |  | 313,194 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Unsecured revolving credit facility |  |  | 100,000 |  |  | — | |  | — | |  | 100,000 |  |
| Senior notes |  |  | 1,419,198 |  |  | — | |  | — | |  | 1,419,198 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total liabilities |  |  | 1,629,106 |  |  | 1,193,891 |  |  | (906,894) |  |  | 1,916,103 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Equity** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total stockholders’ equity |  |  | 1,960,397 |  |  | 1,577,561 |  |  | (1,577,561) |  |  | 1,960,397 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Noncontrolling interests |  |  | — | |  | 604 |  |  | — | |  | 604 |  |
| Total equity |  |  | 1,960,397 |  |  | 1,578,165 |  |  | (1,577,561) |  |  | 1,961,001 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total liabilities and equity | $ | | 3,589,503 |  | $ | 2,772,056 |  | $ | (2,484,455) |  | $ | 3,877,104 |  |
|  | - 28 - |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **December 31, 2017** | | | | |  |  |  |
|  |  |  |  |  | **Guarantor** | |  | **Consolidating** | |  | **Consolidated** |  |
|  |  | **Issuer** | |  |  |  | **TRI Pointe** |  |
|  |  |  | **Subsidiaries** | |  | **Adjustments** | |  | **Group, Inc.** |  |
| **Assets** |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash and cash equivalents | $ | 176,684 |  | $ | 106,230 |  | $ | — | | $ | 282,914 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Receivables |  | 56,021 |  |  | 69,579 |  |  | — | |  | 125,600 |  |
| Intercompany receivables |  | 794,550 |  |  | — | |  | (794,550) |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Real estate inventories |  | 855,727 |  |  | 2,249,826 |  |  | — | |  | 3,105,553 |  |
| Investments in unconsolidated entities |  | — | |  | 5,870 |  |  | — | |  | 5,870 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Goodwill and other intangible assets, net |  | 156,604 |  |  | 4,357 |  |  | — | |  | 160,961 |  |
| Investments in subsidiaries |  | 1,448,690 |  |  | — | |  | (1,448,690) |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Deferred tax assets, net |  | 10,892 |  |  | 65,521 |  |  | — | |  | 76,413 |  |
| Other assets |  | 3,465 |  |  | 44,605 |  |  | — | |  | 48,070 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total assets | $ | 3,502,633 |  | $ | 2,545,988 |  | $ | (2,243,240) |  | $ | 3,805,381 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |  |  |  |  |  |  |  |
| Accounts payable | $ | 9,364 |  | $ | 63,506 |  | $ | — | | $ | 72,870 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Intercompany payables |  | — | |  | 794,550 |  |  | (794,550) |  |  | — |  |
| Accrued expenses and other liabilities |  | 92,245 |  |  | 238,637 |  |  | — | |  | 330,882 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Senior notes |  | 1,471,302 |  |  | — | |  | — | |  | 1,471,302 |  |
| Total liabilities |  | 1,572,911 |  |  | 1,096,693 |  |  | (794,550) |  |  | 1,875,054 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Equity** |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total stockholders’ equity |  | 1,929,722 |  |  | 1,448,690 |  |  | (1,448,690) |  |  | 1,929,722 |  |
| Noncontrolling interests |  | — | |  | 605 |  |  | — | |  | 605 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total equity |  | 1,929,722 |  |  | 1,449,295 |  |  | (1,448,690) |  |  | 1,930,327 |  |
| Total liabilities and equity | $ | 3,502,633 |  | $ | 2,545,988 |  | $ | (2,243,240) |  | $ | 3,805,381 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Three Months Ended September 30, 2018** | | | | | |  |  |  |
|  |  |  |  |  | **Guarantor** | |  | **Consolidating** | |  | **Consolidated** |  |
|  |  | **Issuer** | |  |  |  | **TRI Pointe** |  |
|  |  |  | **Subsidiaries** | |  | **Adjustments** | |  | **Group, Inc.** |  |
| **Homebuilding:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Home sales revenue | $ | 264,499 |  | $ | 507,269 |  | $ | — | | $ | 771,768 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Land and lot sales revenue |  | — | |  | 2,225 |  |  | — | |  | 2,225 |  |
| Other operations revenue |  | — | |  | 598 |  |  | — | |  | 598 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total revenues |  | 264,499 |  |  | 510,092 |  |  | — | |  | 774,591 |  |
| Cost of home sales |  | 214,759 |  |  | 392,294 |  |  | — | |  | 607,053 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cost of land and lot sales |  | — | |  | 2,234 |  |  | — | |  | 2,234 |  |
| Other operations expense |  | — | |  | 590 |  |  | — | |  | 590 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Sales and marketing |  | 11,434 |  |  | 33,420 |  |  | — | |  | 44,854 |  |
| General and administrative |  | 19,427 |  |  | 18,682 |  |  | — | |  | 38,109 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Homebuilding income from operations |  | 18,879 |  |  | 62,872 |  |  | — | |  | 81,751 |  |
| Equity in income of unconsolidated entities |  | — | |  | 15 |  |  | — | |  | 15 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Other (expense) income, net |  | (572) |  |  | 95 |  |  | — | |  | (477) |  |
| Homebuilding income before income taxes |  | 18,307 |  |  | 62,982 |  |  | — |  |  | 81,289 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Financial Services:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Revenues |  | — | |  | 480 |  |  | — | |  | 480 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Expenses |  | — | |  | 125 |  |  | — | |  | 125 |  |
| Equity in income of unconsolidated entities |  | — | |  | 1,986 |  |  | — | |  | 1,986 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Financial services income before income taxes |  | — | |  | 2,341 |  |  | — | |  | 2,341 |  |
| **Income before income taxes** |  | 18,307 |  |  | 65,323 |  |  | — |  |  | 83,630 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Equity of net income of subsidiaries |  | 45,662 |  |  | — | |  | (45,662) |  |  | — |  |
| Provision for income taxes |  | — | |  | (19,661) |  |  | — | |  | (19,661) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income |  | 63,969 |  |  | 45,662 |  |  | (45,662) |  |  | 63,969 |  |
| Net income attributable to noncontrolling interests |  | — | |  | — | |  | — | |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income available to common stockholders | $ | 63,969 |  | $ | 45,662 |  | $ | (45,662) |  | $ | 63,969 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

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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):**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Nine Months Ended September 30, 2018** | | | | | |  |  |  |
|  |  |  |  |  |  | **Guarantor** | |  | **Consolidating** | |  | **Consolidated** |  |
|  |  |  | **Issuer** | |  |  |  | **TRI Pointe** |  |
|  |  |  |  | **Subsidiaries** | |  | **Adjustments** | |  | **Group, Inc.** |  |
| **Homebuilding:** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Home sales revenue | $ | | 710,561 |  | $ | 1,412,574 |  | $ | — | | $ | 2,123,135 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Land and lot sales revenue |  |  | — | |  | 3,966 |  |  | — | |  | 3,966 |  |
| Other operations revenue |  |  | — | |  | 1,795 |  |  | — | |  | 1,795 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total revenues |  |  | 710,561 |  |  | 1,418,335 |  |  | — | |  | 2,128,896 |  |
| Cost of home sales |  |  | 586,852 |  |  | 1,074,799 |  |  | — | |  | 1,661,651 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cost of land and lot sales |  |  | — | |  | 4,163 |  |  | — | |  | 4,163 |  |
| Other operations expense |  |  | — | |  | 1,781 |  |  | — | |  | 1,781 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Sales and marketing |  |  | 33,943 |  |  | 94,938 |  |  | — | |  | 128,881 |  |
| General and administrative |  |  | 55,527 |  |  | 55,879 |  |  | — | |  | 111,406 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Homebuilding income from operations |  |  | 34,239 |  |  | 186,775 |  |  | — | |  | 221,014 |  |
| Equity in loss of unconsolidated entities |  |  | — | |  | (384) |  |  | — | |  | (384) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Other (loss) income, net |  |  | (537) |  |  | 158 |  |  | — | |  | (379) |  |
| Homebuilding income before income taxes |  |  | 33,702 |  |  | 186,549 |  |  | — |  |  | 220,251 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Financial Services:** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Revenues |  |  | — | |  | 1,154 |  |  | — | |  | 1,154 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Expenses |  |  | — | |  | 391 |  |  | — | |  | 391 |  |
| Equity in income of unconsolidated entities |  |  | — | |  | 4,972 |  |  | — | |  | 4,972 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Financial services income before income taxes |  |  | — | |  | 5,735 |  |  | — | |  | 5,735 |  |
| **Income before income taxes** |  |  | 33,702 |  |  | 192,284 |  |  | — |  |  | 225,986 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Equity of net income of subsidiaries |  |  | 136,827 |  |  | — | |  | (136,827) |  |  | — |  |
| Provision for income taxes |  |  | — | |  | (55,457) |  |  | — | |  | (55,457) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income |  |  | 170,529 |  |  | 136,827 |  |  | (136,827) |  |  | 170,529 |  |
| Net income attributable to noncontrolling interests |  |  | — | |  | — | |  | — | |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income available to common stockholders | $ | | 170,529 |  | $ | 136,827 |  | $ | (136,827) |  | $ | 170,529 |  |
|  | - 32 - |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

**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 |  |
|  | - 33 - |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Nine Months Ended September 30, 2018** | | | | | |  |  |  |
|  |  |  |  |  | **Guarantor** | |  | **Consolidating** | |  | **Consolidated** |  |
|  |  | **Issuer** | |  |  |  | **TRI Pointe** |  |
|  |  |  | **Subsidiaries** | |  | **Adjustments** | |  | **Group, Inc.** |  |
| **Cash flows from operating activities:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Net cash provided by (used in) operating activities | $ | 60,315 |  | $ | (132,405) |  | $ | — | | $ | (72,090) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Cash flows from investing activities:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Purchases of property and equipment |  | (6,603) |  |  | (17,944) |  |  | — | |  | (24,547) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Proceeds from sale of property and equipment |  | — | |  | 8 |  |  | — | |  | 8 |  |
| Investments in unconsolidated entities |  | — | |  | (1,812) |  |  | — | |  | (1,812) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Intercompany |  | (108,780) |  |  | — | |  | 108,780 |  |  | — |  |
| Net cash (used in) provided by investing activities |  | (115,383) |  |  | (19,748) |  |  | 108,780 |  |  | (26,351) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Cash flows from financing activities:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Borrowings from debt |  | 100,000 |  |  | — | |  | — | |  | 100,000 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Repayment of debt |  | (57,931) |  |  | — | |  | — | |  | (57,931) |  |
| Distributions to noncontrolling interests |  | — | |  | (1) |  |  | — | |  | (1) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Proceeds from issuance of common stock under |  |  |  |  |  |  |  |  |  |  |  |  |
| share-based awards |  | 1,943 |  |  | — | |  | — | |  | 1,943 |  |
| Minimum tax withholding paid on behalf of employees for |  |  |  |  |  |  |  |  |  |  |  |  |
| restricted stock units |  | (6,049) |  |  | — | |  | — | |  | (6,049) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Share repurchases |  | (139,349) |  |  | — | |  | — | |  | (139,349) |  |
| Intercompany |  | — | |  | 108,780 |  |  | (108,780) |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net cash (used in) provided by financing activities |  | (101,386) |  |  | 108,779 |  |  | (108,780) |  |  | (101,387) |  |
| Net (decrease) increase in cash and cash equivalents |  | (156,454) |  |  | (43,374) |  |  | — |  |  | (199,828) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash and cash equivalents - beginning of period |  | 176,684 |  |  | 106,230 |  |  | — | |  | 282,914 |  |
| Cash and cash equivalents - end of period | $ | 20,230 |  | $ | 62,856 |  | $ | — |  | $ | 83,086 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

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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 investing activities |  | (163,228) |  |  | (1,667) |  |  | 161,755 |  |  | (3,140) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Cash flows from financing activities:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Borrowings from notes payable |  | 500,000 |  |  | — | |  | — | |  | 500,000 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Repayment of notes payable |  | (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 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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**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**

Forward-looking statements that are included in this Quarterly Report on Form 10-Q are generally accompanied by words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “future,” “goal,” “intend,” “likely,” “may,” “might,” “plan,” “potential,” “predict,” “project,” “should,” “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 and labor prices and availability;
* 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;
* changes 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” included in our Annual Report on Form 10-K for the year ended December 31, 2017 and in other filings we make with the Securities and Exchange Commission (“SEC”).

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 SEC, including our Annual Report on Form 10-K for the year ended December 31, 2017 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**

For the three months ended September 30, 2018, deliveries increased 8% from the prior-year period and average sales price increased 10%, fueling a 19% increase in home sales revenue. The increase in new home deliveries was accompanied by a 180 basis point increase in homebuilding gross margins. New home orders were down 18% compared to the prior-year period, and backlog units at quarter end were down 7% compared to the end of the prior-year period. An increase in the average sales price of backlog to $681,000 was able to offset some of the backlog unit decline, resulting in a 3% decrease in backlog dollar value.

Based on our new home order trends for the third quarter 2018, we are seeing a softening of consumer motivation and demand in many of the markets in which we operate. Even though the overall housing market fundamentals remain strong, we believe home buyer demand has slowed in response to higher borrowing costs and the significant home price appreciation our industry has experienced over the last few years. We believe that this is a normal consumer reaction, and we are continuing to closely monitor this dynamic in all of our markets and focusing on pricing our products to market demand profiles.

We remain optimistic about the outlook for our industry and our Company. With respect to the industry, we continue to be optimistic due to the strength of the economy, overall job growth and healthy consumer confidence, which, along with pent-up demand from young adults, we believe will lead to growing household formations. In addition, the overall supply of new and existing homes on the market remains at low levels, and finished lot availability in the markets in which we build remains constrained.

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

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended September 30,** | | | |  |  |  | **Nine Months Ended September 30,** | | | |
|  | **2018** |  |  | **2017** |  |  |  | **2018** |  |  | **2017** |
| **Homebuilding:** |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Home sales revenue | $ | 771,768 |  | $ | 648,638 |  | $ | 2,123,135 |  | $ | 1,609,458 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Land and lot sales revenue |  | 2,225 |  |  | 68,218 |  |  | 3,966 |  |  | 69,661 |
| Other operations revenue |  | 598 |  |  | 584 |  |  | 1,795 |  |  | 1,752 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Total revenues |  | 774,591 |  |  | 717,440 |  |  | 2,128,896 |  |  | 1,680,871 |
| Cost of home sales |  | 607,053 |  |  | 521,918 |  |  | 1,661,651 |  |  | 1,294,563 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Cost of land and lot sales |  | 2,234 |  |  | 12,001 |  |  | 4,163 |  |  | 13,299 |
| Other operations expense |  | 590 |  |  | 575 |  |  | 1,781 |  |  | 1,726 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Sales and marketing |  | 44,854 |  |  | 33,179 |  |  | 128,881 |  |  | 92,209 |
| General and administrative |  | 38,109 |  |  | 32,956 |  |  | 111,406 |  |  | 101,293 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Homebuilding income from operations |  | 81,751 |  |  | 116,811 |  |  | 221,014 |  |  | 177,781 |
| Equity in income (loss) of unconsolidated entities |  | 15 |  |  | — | |  | (384) |  |  | 1,646 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Other (expense) income, net |  | (477) |  |  | 26 |  |  | (379) |  |  | 147 |
| Homebuilding income before income taxes |  | 81,289 |  |  | 116,837 |  |  | 220,251 |  |  | 179,574 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Financial Services:** |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Revenues |  | 480 |  |  | 295 |  |  | 1,154 |  |  | 881 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Expenses |  | 125 |  |  | 82 |  |  | 391 |  |  | 233 |
| Equity in income of unconsolidated entities |  | 1,986 |  |  | 1,351 |  |  | 4,972 |  |  | 2,911 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Financial services income before income taxes |  | 2,341 |  |  | 1,564 |  |  | 5,735 |  |  | 3,559 |
| **Income before income taxes** |  | 83,630 |  |  | 118,401 |  |  | 225,986 |  |  | 183,133 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Provision for income taxes |  | (19,661) |  |  | (46,112) |  |  | (55,457) |  |  | (69,824) |
| Net income |  | 63,969 |  |  | 72,289 |  |  | 170,529 |  |  | 113,309 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Net income attributable to noncontrolling interests |  | — | |  | (25) |  |  | — | |  | (138) |
| Net income available to common stockholders | $ | 63,969 |  | $ | 72,264 |  | $ | 170,529 |  | $ | 113,171 |
| Earnings per share |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Basic | $ | 0.43 |  | $ | 0.48 |  | $ | 1.13 |  | $ | 0.73 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Diluted | $ | 0.43 |  | $ | 0.48 |  | $ | 1.13 |  | $ | 0.73 |
|  |  |  |  |  |  |  |  |  |  |  |  |

**Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017 *Net New Home Orders, Average Selling Communities and Monthly Absorption Rates by Segment***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended September 30, 2018** | | | | |  | **Three Months Ended September 30, 2017** | | | | |  |  |  | **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 | 97 |  | 11.0 |  | 2.9 |  | 158 |  | 13.5 |  | 3.9 |  | (39)% |  | (19)% |  | (25)% |
| Pardee Homes | 357 |  | 36.8 |  | 3.2 |  | 421 |  | 30.8 |  | 4.6 |  | (15)% |  | 19 % |  | (29)% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Quadrant Homes | 64 |  | 7.0 |  | 3.0 |  | 84 |  | 8.3 |  | 3.4 |  | (24)% |  | (16)% |  | (10)% |
| Trendmaker Homes | 139 |  | 27.5 |  | 1.7 |  | 113 |  | 29.3 |  | 1.3 |  | 23 % |  | (6)% |  | 31 % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| TRI Pointe Homes | 266 |  | 30.3 |  | 2.9 |  | 378 |  | 34.7 |  | 3.6 |  | (30)% |  | (13)% |  | (19)% |
| Winchester Homes | 112 |  | 14.7 |  | 2.5 |  | 114 |  | 13.2 |  | 2.9 |  | (2)% |  | 11 % |  | (12)% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total | 1,035 |  | 127.3 |  | 2.7 |  | 1,268 |  | 129.8 |  | 3.3 |  | (18)% |  | (2)% |  | (17)% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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Net new home orders for the three months ended September 30, 2018 decreased by 233 orders, or 18%, to 1,035, compared to 1,268 during the prior-year period. The decrease in net new home orders was largely due to a 17% decrease in monthly absorption rate. The overall decrease in our monthly absorption rate represents a return to seasonal monthly absorption rates that we generally expect for the third quarter, after a third quarter of 2017 that carried forward continued strong demand from the spring selling season. In addition, as mentioned above, we have experienced reduced overall demand due to rising mortgage interest rates and affordability concerns in certain markets, most notably in Northern California communities at our TRI Pointe Homes brand and in the Seattle area communities at our Quadrant Homes brand.

Maracay reported a 39% decrease in net new home orders driven by a 25% decrease in monthly absorption rate and a 19% decrease in average selling communities. The monthly absorption rate of 2.9 for the quarter is consistent with seasonal expectations, as discussed above. The decrease in average selling communities was due to the timing of community openings and closings. Pardee Homes reported a 15% decrease in net new home orders driven by a 29% decrease in monthly absorption rate, offset by a 19% increase in average selling communities. The monthly absorption rate remained strong at 3.2, but decreased from 4.6 in the prior year for the reasons discussed above. The increase in average selling communities was a result of increased community count in the Los Angeles, Inland Empire and Las Vegas markets, offset by a decrease in San Diego. Net new home orders decreased 24% at Quadrant Homes due primarily to a 16% decrease in average selling communities and a 10% decrease in monthly absorption rate compared to the prior-year period. The decrease in average selling communities was due to the timing of the opening and closing of communities. The monthly absorption rate of 3.0 for the quarter was consistent with seasonal expectations but represented a decrease compared to strong absorptions in the prior-year period, as discussed above. In addition, we experienced some softening market conditions due to increased interest rates and affordability concerns at our higher price point communities. As a result, the Company increased price incentives and increased marketing efforts during the third quarter to help offset the demand headwinds. Trendmaker Homes’ net new home orders increased 23% due to a 31% increase in monthly absorption rate offset by a 6% decrease in average selling communities. The increase in monthly absorption rate was due to continued improved market conditions in Houston during the quarter. In addition, net new home orders for the prior-year period were negatively impacted by Hurricane Harvey. TRI Pointe Homes’ net new home orders decreased 30% due to a 19% decrease in our monthly absorption rate and a 13% decrease in average selling communities. The decrease in our monthly absorption rate was due both to the difficult comparison to the strong demand in the prior-year period discussed above and lower overall demand due to rising interest rates and affordability concerns in certain higher priced Northern California communities. Similar to Quadrant Homes above, TRI Pointe Homes increased incentives and marketing efforts to help offset these demand headwinds. Winchester Homes reported a 2% decrease in net new home orders as a result of a 12% decrease in our monthly absorption rate, offset by an 11% increase in average selling communities. The decrease in monthly absorption rate was due to changes in product mix, with fewer high absorbing attached communities compared to the prior-year period.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **As of September 30, 2018** | | | | | |  |  |  | **As of September 30, 2017** | | | | | |  |  |  | **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 | 216 | $ | | | 122,617 |  | $ | 568 |  | 305 | $ | | | 154,324 |  | $ | 506 |  | (29)% | (21)% | |  | 12 % |  |
| Pardee Homes | 698 |  |  |  | 451,398 |  |  | 647 |  | 646 |  |  |  | 436,376 |  |  | 676 |  | 8 % | 3 % | |  | (4)% |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Quadrant Homes | 129 |  |  |  | 127,136 |  |  | 986 |  | 206 |  |  |  | 160,202 |  |  | 778 |  | (37)% | (21)% | |  | 27 % |  |
| Trendmaker Homes | 239 |  |  |  | 143,000 |  |  | 598 |  | 213 |  |  |  | 107,968 |  |  | 507 |  | 12 % | 32 % | |  | 18 % |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| TRI Pointe Homes | 627 |  |  |  | 460,700 |  |  | 735 |  | 659 |  |  |  | 481,537 |  |  | 731 |  | (5)% | (4)% | |  | 1 % |  |
| Winchester Homes | 192 |  |  |  | 126,374 |  |  | 658 |  | 236 |  |  |  | 141,858 |  |  | 601 |  | (19)% | (11)% | |  | 9 % |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total | 2,101 | $ | | | 1,431,225 |  | $ | 681 |  | 2,265 | $ | | | 1,482,265 |  | $ | 654 |  | (7)% | (3)% | |  | 4 % |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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 cancelled prior to delivery of the home (as a percentage of overall orders) increased to 19% compared to 15% during the prior-year period. The dollar value of backlog was $1.4 billion as of September 30, 2018, a decrease of $51.0 million, or 3%, compared to $1.5 billion as of September 30, 2017. This decrease was due to a decrease in backlog units of 164, or 7%, to 2,101 as of September 30, 2018, compared to 2,265 as of September 30, 2017, offset by a 4% increase in the average sales price of homes in backlog to $681,000 as of September 30, 2018, compared to $654,000 as of September 30, 2017.

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Maracay's backlog dollar value decreased 21% compared to the prior year due to a 29% decrease in backlog units, offset by a 12% increase in average sales price. The decrease in backlog units was due to the 39% decrease in net new home orders during the three months ended September 30, 2018 as a result of a decrease in average selling communities and our monthly absorption rate. Pardee Homes’ backlog dollar value increased 3% due to an increase in backlog units of 8% offset by a decrease in average sales price of 4%. The increase in backlog units was due to the carryover of backlog units from the second quarter of 2018 and the timing of construction and deliveries. Quadrant Homes’ backlog dollar value decreased 21% as a result of a 37% decrease in backlog units offset by a 27% increase in average sales price. The decrease in backlog units was a result of the 24% decrease in new home orders for the three months ended September 30, 2018 as well as starting the quarter with fewer units in backlog compared to the same period last year. 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 32% primarily due to an 18% increase in average sales price and a 12% increase in backlog units. The increase in backlog units related to the 23% increase in net new home orders for the quarter and timing of deliveries. TRI Pointe Homes’ backlog dollar value decreased 4% due to a 5% decrease in backlog units offset by a 1% increase in average selling price. Winchester Homes’ backlog dollar value decreased 11% driven by the 19% decrease in backlog units offset by a 9% increase in average sales price. The decrease in backlog units is a result of the 2% decrease in net new home orders for the three months ended September 30, 2018 as well as starting the quarter with fewer units in backlog compared to the same period last year. The increase in average sales price compared to the prior year was due to mix of more detached product which generally has a higher average sales price.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended September 30, 2018** | | | | | | |  | **Three Months Ended September 30, 2017** | | | | | | |  |  | **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 | 137 |  | $ | 66,730 |  | $ | 487 |  | 164 |  | $ | 78,166 |  | $ | 477 |  | (16)% | (15)% | |  | 2% |
| Pardee Homes | 354 |  |  | 224,452 |  |  | 634 |  | 328 |  |  | 164,548 |  |  | 502 |  | 8 % | 36 % | |  | 26% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Quadrant Homes | 73 |  |  | 65,576 |  |  | 898 |  | 79 |  |  | 54,197 |  |  | 686 |  | (8)% | 21 % | |  | 31% |
| Trendmaker Homes | 150 |  |  | 77,348 |  |  | 516 |  | 104 |  |  | 52,453 |  |  | 504 |  | 44 % | 47 % | |  | 2% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| TRI Pointe Homes | 367 |  |  | 264,500 |  |  | 721 |  | 332 |  |  | 239,110 |  |  | 720 |  | 11 % | 11 % | |  | —% |
| Winchester Homes | 124 |  |  | 73,162 |  |  | 590 |  | 104 |  |  | 60,164 |  |  | 579 |  | 19 % | 22 % | |  | 2% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total | 1,205 |  | $ | 771,768 |  | $ | 640 |  | 1,111 |  | $ | 648,638 |  | $ | 584 |  | 8 % | 19 % | |  | 10% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Home sales revenue increased $123.1 million, or 19%, to $771.8 million for the three months ended September 30, 2018. The increase was comprised of (i) $68.2 million related to a $56,000, or 10%, increase in average sales price of homes delivered to $640,000 for the three months ended September 30, 2018, from $584,000 in the prior-year period, and (ii) $54.9 million related to an increase in new homes delivered to 1,205 for the three months ended September 30, 2018 from 1,111 in the prior-year period.

Maracay had a 15% decrease in home sales revenue due to a 16% decrease in new homes delivered. The decrease in new home deliveries was due to the decrease in new home orders and the timing of deliveries, impacted in part by a decrease in community count. Pardee Homes’ home sales revenue increased 36% due to a 26% increase in average sales price. The increase in average sales price was due to a product mix shift that included a greater proportion of deliveries from our higher priced long-dated California assets. Quadrant Homes increased home sales revenue by 21% due to a 31% increase in average sales price, offset by an 8% decrease in new homes delivered. The decrease in new homes delivered was due to starting the current-year period with a lower number of backlog units compared to the prior-year period. 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 and reflects price increases implemented in the early part of 2018. Trendmaker Homes’ home sales revenue increased 47% due to a 44% increase in new homes delivered. The increase in new homes delivered was largely due to the timing of deliveries, which was driven by a 23% increase in backlog units to start the quarter compared to the prior-year period. TRI Pointe Homes had an 11% increase in home sales revenue due to an 11% increase in new homes delivered. The increase in new homes delivered was driven by 19% higher backlog units at the start of the quarter compared to the prior-year period. Home sales revenue increased at Winchester Homes by 22% due to a 19% increase in new homes delivered due to the timing of deliveries.

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

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Three Months Ended September 30,** | | | |  |  |  |
|  |  | **2018** |  | **%** |  |  | **2017** |  | **%** |  |
| Home sales revenue | $ | 771,768 | 100.0% | |  | $ | 648,638 | 100.0% | |  |
| Cost of home sales |  | 607,053 | 78.7% | |  |  | 521,918 | 80.5% | |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Homebuilding gross margin |  | 164,715 | 21.3% | |  |  | 126,720 | 19.5% | |  |
| Add: interest in cost of home sales |  | 20,128 | 2.6% | |  |  | 15,623 | 2.4% | |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Add: impairments and lot option abandonments |  | 568 | 0.1% | |  |  | 374 | 0.1% | |  |
| Adjusted homebuilding gross margin(1) | $ | 185,411 |  | 24.0% |  | $ | 142,717 |  | 22.0% |  |
| Homebuilding gross margin percentage |  | 21.3% |  |  |  |  | 19.5% |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Adjusted homebuilding gross margin percentage(1) |  | 24.0% |  |  |  |  | 22.0% |  |  |  |
| \_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |

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

Our homebuilding gross margin percentage increased to 21.3% for the three months ended September 30, 2018 as compared to 19.5% for the prior-year period. The increase in gross margin percentage was primarily due to the mix of deliveries, with a greater proportion of deliveries from our long-dated California communities, which produce gross margins above the Company average, having a greater impact on our overall gross margin percentage compared to the prior-year period. In addition, gross margin percentage increased due to the accounting changes resulting from the adoption of ASC 606 on January 1, 2018. For further details on ASC 606, 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. Excluding interest and impairment and lot option abandonments in cost of home sales, adjusted homebuilding gross margin percentage was 24.0% for the three months ended September 30, 2018, compared to 22.0% 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 most directly comparable GAAP measure.

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

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended September 30,** | | | | | **As a Percentage of** | | |  |  |
|  |  | **Home Sales Revenue** | | |  |  |
|  |  | **2018** |  |  | **2017** |  | **2018** |  |  | **2017** |  |
| Sales and marketing | $ | 44,854 |  | $ | 33,179 |  | 5.8% |  |  | 5.1% |  |
| General and administrative (G&A) |  | 38,109 |  |  | 32,956 |  | 4.9% |  |  | 5.1% |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Total sales and marketing and G&A | $ | 82,963 |  | $ | 66,135 |  | 10.7% |  |  | 10.2% |  |
|  |  |  |  |  |  |  |  |  |  |  |  |

Total sales and marketing and G&A (“SG&A”) as a percentage of home sales revenue increased to 10.7% for the three months ended September 30, 2018, compared to 10.2% in the prior-year period. Total SG&A expense increased $16.8 million, to $83.0 million for the three months ended September 30, 2018 from $66.1 million in the prior-year period.

Sales and marketing expense as a percentage of home sales revenue increased to 5.8% for the three months ended September 30, 2018, compared to 5.1% for the prior-year period. The increase was due primarily to advertising costs impacted by the timing of future community openings and the accounting changes resulting from the adoption of ASC 606 on January 1, 2018. For further details on ASC 606, 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 QuarterlyReport on Form 10-Q. Sales and marketing expense increased to $44.9 million for the three months ended September 30, 2018 compared to $33.2 million in the prior-year period due in part to the variable cost associated with higher home sales revenue, in addition to the accounting changes resulting from the adoption of ASC 606 on January 1, 2018.

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General and administrative (“G&A”) expenses as a percentage of home sales revenue decreased to 4.9% of home sales revenue for the three months ended September 30, 2018 compared to 5.1% for the prior-year period as a result of higher operating leverage due to the 19% increase in home sales revenue. G&A expenses increased to $38.1 million for the three months ended September 30, 2018 compared to $33.0 million for the prior-year period primarily as a result of additional headcount to support future growth in our existing markets.

***Interest***

Interest, which was incurred principally to finance land acquisitions, land development and home construction, totaled $23.9 million and $22.9 million for the three months ended September 30, 2018 and 2017, respectively. All interest incurred in both periods was capitalized.

***Income Tax***

For the three months ended September 30, 2018, we recorded a tax provision of $19.7 million based on an effective tax rate of 23.5%. 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%. The decrease in the current year income tax rate is due to enactment of the Tax Cuts and Jobs Act which reduced the federal corporate tax rate to 21% from 35%, effective January 1, 2018. The decrease in provision for income taxes is due to a $34.8 million decrease in income before income taxes to $83.6 million for the three months ended September 30, 2018, compared to $118.4 million for the prior-year period. During the quarter ended September 30, 2017, our Pardee Homes reporting segment sold a land parcel, consisting of 69 homebuilding lots, located in the Pacific Highlands Ranch community in San Diego, California. The land sold in this sale represented $66.8 million of land and lot sales revenue contributing a significant profit to the consolidated statements of operations for the three months ended September 30, 2017, with no comparable sale in the current year period.

***Financial Services Segment***

Income from our financial services operations increased to $2.3 million for the three months ended September 30, 2018 compared to $1.6 million for the prior-year period. The increase in financial services income for the three months ended September 30, 2018 compared to the prior-year period relates to the growth of our mortgage financing and title services operations. Both our mortgage financing and title service operations were started in late 2014 and have experienced steady year-over-year growth from inception. In early 2018, we further expanded our suite of financial services operations to include homeowners' insurance services. We expect the launch of these insurance agency operations will provide further growth to this segment of our business.

**Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017 *Net New Home Orders, Average Selling Communities and Monthly Absorption Rates by Segment***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Nine Months Ended September 30, 2018** | | | | |  | **Nine Months Ended September 30, 2017** | | | | |  |  |  | **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 | 382 |  | 12.6 |  | 3.4 |  | 504 |  | 15.3 |  | 3.7 |  | (24)% |  | (18)% |  | (8)% |
| Pardee Homes | 1,294 |  | 34.3 |  | 4.2 |  | 1,282 |  | 29.3 |  | 4.9 |  | 1 % |  | 17 % |  | (14)% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Quadrant Homes | 226 |  | 6.8 |  | 3.7 |  | 311 |  | 7.6 |  | 4.5 |  | (27)% |  | (11)% |  | (18)% |
| Trendmaker Homes | 455 |  | 28.7 |  | 1.8 |  | 393 |  | 30.9 |  | 1.4 |  | 16 % |  | (7)% |  | 29 % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| TRI Pointe Homes | 1,133 |  | 32.5 |  | 3.9 |  | 1,144 |  | 31.9 |  | 4.0 |  | (1)% |  | 2 % |  | (3)% |
| Winchester Homes | 384 |  | 14.1 |  | 3.0 |  | 378 |  | 12.4 |  | 3.4 |  | 2 % |  | 14 % |  | (12)% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total | 3,874 |  | 129.0 |  | 3.3 |  | 4,012 |  | 127.4 |  | 3.5 |  | (3)% |  | 1 % |  | (6)% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Net new home orders for the nine months ended September 30, 2018 decreased by 138 orders, or 3%, to 3,874, compared to 4,012 during the prior-year period. The decrease in net new home orders was due to a 6% decrease in our average monthly absorption rate.

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Maracay reported a 24% decrease in net new home orders driven by an 18% decrease in average selling communities and an 8% decrease in our monthly absorption rate. The decrease in average selling communities was due to the timing of the opening and closing of communities. For the period, Maracay experienced seasonally strong market conditions in Arizona, as demonstrated by a monthly absorption rate of 3.4 homes per community. Pardee Homes increased net new home orders by 1% due to a 17% increase in average community count offset by a 14% decrease in monthly absorption rate. The increase in average selling communities was a result of increased community growth in the Los Angeles, Inland Empire and Las Vegas markets. Overall demand for the period was strong at Pardee Homes with a monthly absorption rate of 4.2 homes per community. Net new home orders decreased 27% at Quadrant Homes due primarily to an 18% decrease in monthly absorption rate and an 11% decrease in average selling communities. The decrease in the monthly absorption rate at Quadrant Homes was due to a higher priced but slower absorbing product mix compared to the prior year, as evidenced by the 27% increase in the average sales price in backlog as of September 30, 2018 compared to September 30, 2017. In addition, we experienced softening market conditions due to increased interest rates and affordability concerns at our higher price point communities. Trendmaker Homes’ net new home orders increased 16% due to a 29% increase in our monthly absorption rate offset by a 7% decrease in average selling communities. The increase in the monthly absorption rate was due to improved market conditions in Houston during the nine months ended September 30, 2018 compared to the prior-year period. TRI Pointe Homes’ net new home orders decreased 1% due to a 3% decrease in monthly absorption rate offset by a 2% increase in average selling communities. Winchester Homes increased net new home orders 2% as a result of a 14% increase in average selling communities offset by a 12% decrease in our monthly absorption rate. The decrease in our monthly absorption rate was due to changes in product mix, with fewer attached communities with high absorption rates compared to the prior-year period.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Nine Months Ended September 30, 2018** | | | | | | |  | **Nine Months Ended September 30, 2017** | | | | | | |  |  | **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 | 383 |  | $ | 182,134 |  | $ | 476 |  | 447 |  | $ | 204,981 |  | $ | 459 |  | (14)% | (11)% | |  | 4% |
| Pardee Homes | 1,005 |  |  | 648,208 |  |  | 645 |  | 896 |  |  | 428,624 |  |  | 478 |  | 12 % | 51 % | |  | 35% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Quadrant Homes | 241 |  |  | 191,686 |  |  | 795 |  | 206 |  |  | 133,747 |  |  | 649 |  | 17 % | 43 % | |  | 22% |
| Trendmaker Homes | 389 |  |  | 194,731 |  |  | 501 |  | 343 |  |  | 169,189 |  |  | 493 |  | 13 % | 15 % | |  | 2% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| TRI Pointe Homes | 983 |  |  | 710,561 |  |  | 723 |  | 783 |  |  | 524,159 |  |  | 669 |  | 26 % | 36 % | |  | 8% |
| Winchester Homes | 343 |  |  | 195,815 |  |  | 571 |  | 265 |  |  | 148,758 |  |  | 561 |  | 29 % | 32 % | |  | 2% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total | 3,344 |  | $ | 2,123,135 |  | $ | 635 |  | 2,940 |  | $ | 1,609,458 |  | $ | 547 |  | 14 % | 32 % | |  | 16% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Home sales revenue increased $513.7 million, or 32%, to $2.1 billion for the nine months ended September 30, 2018. The increase was comprised of

1. $221.2 million related to an increase in new homes delivered to 3,344 for the nine months ended September 30, 2018 from 2,940 in the prior-year period, and (ii) $292.5 million related to an $88,000, or 16%, increase in average sales price of homes delivered to $635,000 for the nine months ended September 30, 2018, from $547,000 in the prior-year period.

Maracay had an 11% decrease in home sales revenue due to a 14% decrease in new homes delivered, offset by a 4% increase in average sales price. The decrease in new home deliveries was due to the decrease in new home orders and the timing of deliveries. Pardee Homes’ home sales revenue increased 51% due to a 35% increase in average sales price and a 12% increase in new homes delivered. The increase in average sales price was due to a product mix shift that included a greater proportion of deliveries from our higher priced long-dated California assets. Quadrant Homes increased home sales revenue by 43% due to a 17% increase in new homes delivered and a 22% increase in average sales price. 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 increased 15% due to a 13% increase in new homes delivered and a 2% increase in average sales price compared to the prior year. TRI Pointe Homes had a 36% increase in home sales revenue due to a 26% increase in new homes delivered and an 8% increase in average sales price. The increase in new homes delivered was driven by a greater number of backlog units to start the year compared to the prior-year period, and the increase in average sales price was related to product mix in the quarter. Home sales revenue increased at Winchester Homes by 32% largely due to an increase in homes delivered as a result of a greater number of backlog units to start the year compared to the prior-year period.

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

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Nine Months Ended September 30,** | | | | |  |
|  |  | **2018** |  | **%** |  |  | **2017** |  | **%** |
| Home sales revenue | $ | 2,123,135 |  | 100.0% |  | $ | 1,609,458 |  | 100.0% |
| Cost of home sales |  | 1,661,651 |  | 78.3% |  |  | 1,294,563 |  | 80.4% |
|  |  |  |  |  |  |  |  |  |  |
| Homebuilding gross margin |  | 461,484 |  | 21.7% |  |  | 314,895 |  | 19.6% |
| Add: interest in cost of home sales |  | 53,926 |  | 2.5% |  |  | 38,448 |  | 2.4% |
|  |  |  |  |  |  |  |  |  |  |
| Add: impairments and lot option abandonments |  | 1,425 |  | 0.1% |  |  | 1,169 |  | 0.1% |
| Adjusted homebuilding gross margin(1) | $ | 516,835 |  | 24.3% |  | $ | 354,512 |  | 22.0% |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Homebuilding gross margin percentage | 21.7% |  |  |  | 19.6% |  |  |  |
|  |  |  |  |  |  |  |  |  |
| Adjusted homebuilding gross margin percentage(1) | 24.3% |  |  |  | 22.0% |  |  |  |
| \_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |

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

Our homebuilding gross margin percentage increased to 21.7% for the nine months ended September 30, 2018 as compared to 19.6% for the prior-year period. The increase in gross margin percentage was primarily due to the mix of deliveries, with a greater proportion of deliveries from our long-dated California communities, which produce gross margins above the Company average, having a greater impact on our overall gross margin percentage compared to the prior-year period. In addition, gross margin percentage increased due to the accounting changes resulting from the adoption of ASC 606 on January 1, 2018. Excluding interest and impairment and lot option abandonments in cost of home sales, adjusted homebuilding gross margin percentage was 24.3% for the nine months ended September 30, 2018, compared to 22.0% 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 most directly comparable GAAP measure.

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

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Nine Months Ended September 30,** | | | | | **As a Percentage of** | | |  |  |
|  |  | **Home Sales Revenue** | | |  |  |
|  |  | **2018** |  |  | **2017** |  | **2018** |  |  | **2017** |  |
| Sales and marketing | $ | 128,881 |  | $ | 92,209 |  | 6.1% |  |  | 5.7% |  |
| General and administrative (G&A) |  | 111,406 |  |  | 101,293 |  | 5.2% |  |  | 6.3% |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Total sales and marketing and G&A | $ | 240,287 |  | $ | 193,502 |  | 11.3% |  |  | 12.0% |  |
|  |  |  |  |  |  |  |  |  |  |  |  |

Total SG&A as a percentage of home sales revenue decreased to 11.3% for the nine months ended September 30, 2018, compared to 12.0% for the prior-year period. Total SG&A expense increased $46.8 million, to $240.3 million for the nine months ended September 30, 2018 from $193.5 million in the prior-year period.

Sales and marketing expense as a percentage of home sales revenue increased to 6.1% for the nine months ended September 30, 2018, compared to 5.7% for the prior-year period. The increase was due primarily to advertising costs impacted by the timing of future community openings. This was mostly offset by the higher operating leverage on the fixed components of sales and marketing expenses as a result of the 32% increase in homes sales revenue. Sales and marketing expense increased to $128.9 million for the nine months ended September 30, 2018 compared to $92.2 million in the prior-year period due to higher advertising costs and the variable cost associated with higher home sales revenue, in addition to the accounting changes resulting from the adoption of ASC 606 on January 1, 2018. For further details on ASC 606, 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.

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G&A expenses as a percentage of home sales revenue decreased to 5.2% of home sales revenue for the nine months ended September 30, 2018 compared to 6.3% for the prior-year period as a result of higher operating leverage due to the 32% increase in home sales revenue. G&A expenses increased to $111.4 million for the nine months ended September 30, 2018 compared to $101.3 million in the prior-year period primarily as a result of additional headcount to support future growth in our existing markets.

***Interest***

Interest, which was incurred principally to finance land acquisitions, land development and home construction, totaled $67.1 million and $61.7 million for the nine months ended September 30, 2018 and 2017, respectively. All interest incurred in both periods was capitalized. The increase in interest incurred during the nine months ended September 30, 2018 as compared to the prior-year period was primarily attributable to 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 nine months ended September 30, 2018, we recorded a tax provision of $55.5 million based on an effective tax rate of 24.5%. 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%. The decrease in the current year income tax rate is due to enactment of the Tax Cuts and Jobs Act which reduced the federal corporate tax rate to 21% from 35%, effective January 1, 2018. The decrease in provision for income taxes is due to a $42.9 million increase in income before income taxes to $226.0 million for the nine months ended September 30, 2018, compared to $183.1 million for the prior-year period, offset by the benefit of a lower effective tax rate as discussed above.

***Financial Services Segment***

Income from our financial services operations increased to $5.7 million for the nine months ended September 30, 2018 compared to $3.6 million for the prior-year period. The increase in financial services income for the nine months ended September 30, 2018 compared to the prior-year period relates to the growth of our mortgage financing and title services operations. Both our mortgage financing and title service operations were started in late 2014 and have experienced steady year-over-year growth from inception. In early 2018, we further expanded our suite of financial services operations to include homeowners' insurance services. We expect the launch of these insurance agency operations will provide further growth to this segment of our business.

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

Excluded from owned and controlled lots are those related to Note 6, *Investments in Unconsolidated Entities*, to the accompanying condensed notes to unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q. The table below summarizes our lots owned or controlled by segment as of the dates presented:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **September 30,** | | |  |  | **Increase** | | |  |  |
|  |  |  | **(Decrease)** | | |  |  |
|  | **2018** |  |  | **2017** |  | **Amount** | | | **%** |  |
| **Lots Owned** |  |  |  |  |  |  |  |  |  |  |
| Maracay | 2,501 |  |  | 1,855 |  | 646 |  |  | 35 % |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Pardee Homes | 14,427 |  |  | 15,348 |  | (921) |  |  | (6)% |  |
| Quadrant Homes | 1,002 |  |  | 1,169 |  | (167) |  |  | (14)% |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Trendmaker Homes | 1,393 |  |  | 1,542 |  | (149) |  |  | (10)% |  |
| TRI Pointe Homes | 3,107 |  |  | 3,117 |  | (10) |  |  | — % |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Winchester Homes | 1,460 |  |  | 1,772 |  | (312) |  |  | (18)% |  |
| Total | 23,890 |  |  | 24,803 |  | (913) |  |  | (4)% |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Lots Controlled(1)** |  |  |  |  |  |  |  |  |  |  |
| Maracay | 710 |  |  | 751 |  | (41) |  |  | (5)% |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Pardee Homes | 977 |  |  | 307 |  | 670 |  |  | 218 % |  |
| Quadrant Homes | 853 |  |  | 516 |  | 337 |  |  | 65 % |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Trendmaker Homes | 428 |  |  | 314 |  | 114 |  |  | 36 % |  |
| TRI Pointe Homes | 1,107 |  |  | 667 |  | 440 |  |  | 66 % |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Winchester Homes | 436 |  |  | 534 |  | (98) |  |  | (18)% |  |
| Total | 4,511 |  |  | 3,089 |  | 1,422 |  |  | 46 % |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Total Lots Owned or Controlled(1)** | 28,401 |  |  | 27,892 |  | 509 |  |  | 2 % |  |
| \_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |

1. As of September 30, 2018 and 2017, lots controlled represented 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, 2018 were operating expenses, land purchases, land development, home construction and repurchases of our senior notes and shares of our common stock. We used funds generated by our operations 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, 2018, we had total liquidity of $569.9 million, including cash and cash equivalents of $83.1 million and $486.8 million of availability under the 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 availability of particular assets, and our Company as a whole, to generate cash flow to cover the expected debt service.

***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.

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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, respectively. Interest is payable semiannually in arrears on June 15 and December 15. During the three and nine months ended September 30, 2018, respectively, we repurchased and cancelled an aggregate principal amount of $36.2 million and $57.9 million of the 2019 Notes.

Our 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. As of September 30, 2018, we were in compliance with the covenants required by our senior notes.

***Unsecured Revolving Credit Facility***

On June 20, 2017, the Company modified its existing unsecured revolving credit facility (“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 Credit 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, 2018, we had $100 million outstanding under the Credit Facility and $486.8 million of availability after considering the borrowing base provisions and outstanding letters of credit. At September 30, 2018, we had outstanding letters of credit of $13.2 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.

Under the 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** |  | **2018** |  |  | **2018** |  |  |
| Consolidated Tangible Net Worth | $ | 1,799,837 |  | $ | 1,274,763 | |  |
| (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 |  | 44.9% |  |  |  | ≤55% |  |
| (Not to exceed 55%) |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| Interest Coverage Test |  | 5.7 |  |  |  | ≥1.5 |  |
| (Not less than 1.5:1.0) |  |  |  |  |  |  |  |

As of September 30, 2018, we were in compliance with all of these financial covenants.

***Stock Repurchase Program***

On February 16, 2018, our board of directors discontinued and cancelled a share repurchase program approved in 2017 (the “2017 Repurchase Program”), and approved a new share repurchase program authorizing the repurchase of shares of common stock with an aggregate value of up to $100 million through March 31, 2019 (the “2018 Repurchase Program”). On August 21, 2018, our board of directors authorized the repurchase of up to an additional $100 million through March 31, 2019, increasing the aggregate value of shares of common stock authorized to be repurchased under the 2018 Repurchase Program to $200 million from $100 million. Purchases of common stock pursuant to the 2018 Repurchase Program may be made in open

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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 under the Exchange Act. We are not obligated under the 2018 Repurchase Program to repurchase any specific number or dollar amount of shares of common stock, and we may modify, suspend or discontinue the 2018 Repurchase 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 and nine months ended September 30, 2018, we repurchased and retired an aggregate of 9.9 million shares of our common stock under the 2018 Repurchase Program for $139.3 million.

***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, 2018** **December 31, 2017**



Unsecured revolving credit facility

Senior Notes

Total debt

Stockholders’ equity

Total capital

Ratio of debt-to-capital(1)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| $ | 100,000 |  | $ | — |
|  | 1,419,198 |  |  | 1,471,302 |
|  |  |  |  |  |
|  | 1,519,198 |  |  | 1,471,302 |
|  | 1,960,397 |  |  | 1,929,722 |
|  |  |  |  |  |
| $ | 3,479,595 |  | $ | 3,401,024 |
|  |  |  |  |  |
|  |  |  |  |  |
|  | 43.7% |  |  | 43.3% |
|  |  |  |  |  |
|  |  |  |  |  |



|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Total debt | $ | 1,519,198 |  | $ | 1,471,302 |  |
|  |  |  |  |  |  |  |
| Less: Cash and cash equivalents |  | (83,086) |  |  | (282,914) |  |
| Net debt |  | 1,436,112 |  |  | 1,188,388 |  |
|  |  |  |  |  |  |  |
| Stockholders’ equity |  | 1,960,397 |  |  | 1,929,722 |  |
| Net capital | $ | 3,396,509 |  | $ | 3,118,110 |  |
|  |  |  |  |  |  |  |
| Ratio of net debt-to-net capital(2) |  | 42.3% |  |  | 38.1% |  |
| \_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |
|  |  |  |  |  |  |

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 financial 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.

***Cash Flows—Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017***

For the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017, the comparison of cash flows is as follows:

* Net cash used in operating activities decreased by $138.6 million to $72.1 million for the nine months ended September 30, 2018, from net cash used of $210.7 million for the nine months ended September 30, 2017. The change was comprised of offsetting activity, including (i) a decrease in cash outflows related to real estate inventories of $85.5 million due to timing of land acquisition and development, (ii) an increase in net income to $170.5 million in the nine months ended September 30, 2018 compared to $113.3 million in the prior-year period, (iii) an increase in cash collected from receivables of $40.6 million in the nine months ended September 30, 2018 compared to cash used of $3.3 million in the prior-year period, and (iv) other offsetting activity, including changes in other assets, accounts payable and accrued expenses.
* Net cash used in investing activities was $26.4 million for the nine months ended September 30, 2018, compared to $3.1 million for the prior-year period. The increase in cash used in investing activities was due mainly to
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increased purchases of property and equipment and cash outflows associated with investments in unconsolidated entities. The large increase in purchases of property and equipment is due to the accounting changes resulting from the adoption of ASC 606 on January 1, 2018. Most model and sales office costs were previously recorded to inventory and were presented as an operating cash flow. Subsequent to the adoption of ASC 606 these purchases are recorded as fixed assets and included as investing cash flows. For further details on ASC 606, see Note 1, *Organization,* *Basis of Presentation and Summary of Significant Accounting Policies* to the accompanying condensed notes to unaudited consolidated financialstatements included in this Quarterly Report on Form 10-Q.

* Net cash used in financing activities was $101.4 million for the nine months ending September 30, 2018, compared to net cash provided by financing activities of $167.5 million for the same period in the prior year. The change was primarily driven by a decrease in net borrowings which were $42.1 million in the nine months ended September 30, 2018 compared to $286.3 million in the prior year. Additionally, cash used to repurchase shares of our common stock increased to $139.3 million during the nine months ended September 30, 2018 from $112.2 million in the prior year.

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

In the ordinary course of business, we enter into purchase 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 and land banking arrangements 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. These option contracts and land banking arrangements 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. In some cases, however, we

may be contractually obligated to complete development work even if we terminate the option to procure land or lots. As of September 30, 2018, we had

$63.4 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 $732.8 million (net of deposits).

Our utilization of land and lot option contracts and land banking arrangements is dependent on, among other things, the availability of land sellers or land banking firms willing to enter into such 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, 2018, we had total liquidity of $569.9 million, including cash of $83.1 million and $486.8 million of availability under the 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.

**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**

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The following table presents project information relating to each of our markets as of September 30, 2018 and includes information on current projects under development where we are building and selling homes.

***Maracay***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **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)** | | **2018** |  | **2018(3)** |  | **2018(4)(5)** |  | **2018** |  | **(in thousands)(6)** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Phoenix, Arizona** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| City of Buckeye: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Verrado Victory | | | 2015 |  | 98 |  | 74 |  | 24 |  | 8 |  | 25 | $373 - $405 | |  |
| Arroyo Seco | | | 2020 |  | 44 |  | — | | 44 |  | — | | — | $387 - $458 | |  |
| City of Chandler: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Hawthorn Manor | | | 2017 |  | 84 |  | 55 |  | 29 |  | 14 |  | 24 | $490 - $564 | |  |
| Mission Estates | | | 2019 |  | 26 |  | — | | 26 |  | — | | — | $530 - $590 | |  |
| Windermere Ranch | | | 2019 |  | 91 |  | — | | 91 |  | — | | — | $448 - $476 | |  |
| City of Gilbert: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| The Preserve at Adora Trails | | | 2017 |  | 82 |  | 74 |  | 8 |  | 8 |  | 40 | $420 - $463 | |  |
| Marathon Ranch | | | 2018 |  | 63 |  | — | | 63 |  | 24 |  | — | $511 - $554 | |  |
| Lakes At Annecy | | | 2019 |  | 216 |  | — | | 216 |  | — | | — | $271 - $334 | |  |
| Annecy P3 | | | 2020 |  | 250 |  | — | | 250 |  | — | | — | $226 - $301 | |  |
| Lakeview Trails | | | 2019 |  | 92 |  | — | | 92 |  | — | | — | $468 - $560 | |  |
| Copper Bend | | | 2019 |  | 38 |  | — | | 38 |  | — | | — | $451 - $484 | |  |
| Hamstra Assemblage | | | 2020 |  | 332 |  | — | | 332 |  | — | | — | $470 - $750 | |  |
| City of Goodyear: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Villages at Rio Paseo | | | 2018 |  | 117 |  | 7 |  | 110 |  | 10 |  | 7 | $204 - $218 | |  |
| Cottages at Rio Paseo | | | 2018 |  | 93 |  | 24 |  | 69 |  | 12 |  | 24 | $238 - $257 | |  |
| City of Mesa: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Kinetic Point at Eastmark | | | 2013 |  | 80 |  | 79 |  | 1 |  | 1 |  | 2 | $297 - $376 | |  |
| Curie Court at Eastmark | | | 2016 |  | 106 |  | 101 |  | 5 |  | 5 |  | 43 | $297 - $376 | |  |
| The Vista at Granite Crossing | | | 2018 |  | 37 |  | 14 |  | 23 |  | 18 |  | 14 | $438 - $513 | |  |
| Electron at Eastmark | | | 2019 |  | 53 |  | — | | 53 |  | — | | — | $360 - $437 | |  |
| Town of Peoria: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Legacy at The Meadows | | | 2017 |  | 74 |  | 57 |  | 17 |  | 8 |  | 31 | $425 - $451 | |  |
| Estates at The Meadows | | | 2017 |  | 272 |  | 72 |  | 200 |  | 48 |  | 29 | $486 - $560 | |  |
| Enclave at The Meadows | | | 2018 |  | 126 |  | 19 |  | 107 |  | 10 |  | 19 | $375 - $470 | |  |
| Deseo | | | 2019 |  | 94 |  | — | | 94 |  | — | | — | $494 - $547 | |  |
| City of Phoenix: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Navarro Groves | | | 2018 |  | 54 |  | 6 |  | 48 |  | 28 |  | 6 | $431 - $476 | |  |
| Avance | | | 2019 |  | 394 |  | — | | 394 |  | — | | — | $352 - $598 | |  |
| Town of Queen Creek: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Spur Cross | | | 2020 |  | 118 |  | — | | 118 |  | — | | — | $454 - $544 | |  |
| Closed Communities | | | N/A | | — | | — | | — | | — | | 43 |  |  |  |
| **Phoenix, Arizona Total** | | |  |  | **3,034** |  | **582** |  | **2,452** |  | **194** |  | **307** |  |  |  |
| **Tucson, Arizona** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Oro Valley: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Desert Crest - Center Pointe Vistoso | | | 2016 |  | 103 |  | 75 |  | 28 |  | 8 |  | 26 | $262 - $307 | |  |
| The Cove - Center Pointe Vistoso | | | 2016 |  | 83 |  | 74 |  | 9 |  | 4 |  | 25 | $345 - $405 | |  |
| Summit N & S - Center Pointe Vistoso | | | 2016 |  | 88 |  | 79 |  | 9 |  | 8 |  | 14 | $397 - $432 | |  |
| The Pinnacle - Center Pointe Vistoso | | | 2016 |  | 69 |  | 66 |  | 3 |  | 2 |  | 6 | $448 - $480 | |  |
| Closed Communities | | | N/A | | — | | — | | — | | — | | 5 |  |  |  |
| **Tucson, Arizona Total** | | |  |  | **343** |  | **294** |  | **49** |  | **22** |  | **76** |  |  |  |
| **Maracay Total** | | |  |  | **3,377** |  | **876** |  | **2,501** |  | **216** |  | **383** |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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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)** | | **2018** |  | **2018(3)** |  | **2018(4)(5)** |  | **2018** |  | **(in thousands)(6)** | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **California** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| San Diego County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Almeria | | | 2017 |  | 80 |  | 48 |  | 32 |  | 32 |  | 33 |  | $1,440 | - $1,560 |  |
| Olvera | | | 2017 |  | 84 |  | 62 |  | 22 |  | 22 |  | 47 |  | $1,315 | - $1,470 |  |
| Vista Santa Fe | | | 2019 |  | 44 |  | — | | 44 |  | — | — | — | | $1,780 | - $1,895 |  |
| Sendero | | | 2019 |  | 112 |  | — | | 112 |  | — | — | — | | $1,180 | - $1,280 |  |
| Terraza | | | 2019 |  | 81 |  | — | | 81 |  | — | — | — | | $1,300 | - $1,390 |  |
| Carmel | | | 2019 |  | 105 |  | — | | 105 |  | — | — | — | | $1,430 | - $1,530 |  |
| Vista Del Mar | | | 2019 |  | 79 |  | — | | 79 |  | — | — | — | | $1,560 | - $1,710 |  |
| Pacific Highlands Ranch Future | | | 2020 |  | 115 |  | — | | 115 |  | — | — | — | | TBD | |  |
| Sandstone | | | 2018 |  | 81 |  | 33 |  | 48 |  | 20 |  | 33 |  | $640 | - $710 |  |
| Lake Ridge | | | 2018 |  | 129 |  | 26 |  | 103 |  | 24 |  | 26 |  | $710 | - $860 |  |
| Azul | | | 2017 |  | 121 |  | 120 |  | 1 |  | — |  | 56 |  | $360 | - $475 |  |
| Veraz | | | 2018 |  | 111 |  | — | | 111 |  | 2 |  | — | | $380 | - $460 |  |
| Moderna | | | 2018 |  | 44 |  | — | | 44 |  | 4 |  | — | | $355 | - $440 |  |
| Marea | | | 2020 |  | 135 |  | — | | 135 |  | — |  | — | | $370 | - $470 |  |
| Solmar | | | 2019 |  | 182 |  | — | | 182 |  | — |  | — | | $365 | - $440 |  |
| Meadowood | | | TBD | | 845 |  | — | | 845 |  | — |  | — | | $290 | - $590 |  |
| South Otay Mesa | | | TBD | | 893 |  | — | | 893 |  | — |  | — | | TBD | |  |
| Los Angeles County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Verano | | | 2017 |  | 95 |  | 30 |  | 65 |  | 11 |  | 21 |  | $560 | - $670 |  |
| Arista | | | 2017 |  | 143 |  | 59 |  | 84 |  | 10 |  | 29 |  | $700 | - $785 |  |
| Cresta | | | 2018 |  | 67 |  | — | | 67 |  | 19 |  | 5 |  | $790 | - $890 |  |
| Lyra | | | 2019 |  | 84 |  | — | | 84 |  | — |  | — | | $648 - $715 | |  |
| Sola | | | 2019 |  | 73 |  | — | | 73 |  | — |  | — | | $540 - $570 | |  |
| Skyline Ranch Future | | | TBD | | 1,063 |  | — | | 1,063 |  | — |  | — | | $550 - $810 | |  |
| Riverside County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Vantage | | | 2016 |  | 101 |  | 75 |  | 26 |  | 23 |  | 23 |  | $390 | - $410 |  |
| Aura | | | 2017 |  | 100 |  | 73 |  | 27 |  | 20 |  | 25 |  | $370 | - $385 |  |
| Starling | | | 2017 |  | 68 |  | 35 |  | 33 |  | 5 |  | 20 |  | $420 | - $430 |  |
| Canyon Hills Future 70 x 115 | | | TBD | | 125 |  | — | | 125 |  | — |  | — | | TBD | |  |
| Westlake | | | 2020 |  | 163 |  | — | | 163 |  | — |  | — | | $318 | - $325 |  |
| Skycrest | | | 2015 |  | 125 |  | 124 |  | 1 |  | 1 |  | 17 |  | $378 | - $400 |  |
| Flagstone | | | 2016 |  | 79 |  | 78 |  | 1 |  | 1 |  | 14 |  | $430 | - $450 |  |
| Elara | | | 2016 |  | 248 |  | 179 |  | 69 |  | 25 |  | 60 |  | $300 | - $330 |  |
| Daybreak | | | 2017 |  | 189 |  | 61 |  | 128 |  | 11 |  | 36 |  | $350 | - $375 |  |
| Cascade | | | 2017 |  | 151 |  | 64 |  | 87 |  | 48 |  | 37 |  | $305 | - $320 |  |
| Abrio | | | 2018 |  | 138 |  | — | | 138 |  | 33 |  | — | | $400 | - $425 |  |
| Beacon | | | 2018 |  | 106 |  | — | | 106 |  | 34 |  | — | | $465 | - $510 |  |
| Alisio | | | 2019 |  | 84 |  | — | | 84 |  | — |  | — | | TBD | |  |
| Vita | | | 2019 |  | 152 |  | — | | 152 |  | 3 |  | — | | $310 | - $330 |  |
| Avid | | | 2019 |  | 103 |  | — | | 103 |  | 2 |  | — | | $340 | - $360 |  |
| Elan | | | 2019 |  | 81 |  | — | | 81 |  | — |  | — | | $410 | - $430 |  |
| Mira | | | 2019 |  | 92 |  | — | | 92 |  | 1 |  | — | | $375 | - $400 |  |
| Sundance Future Active Adult | | | TBD | | 276 |  | — | | 276 |  | — |  | — | | TBD | |  |
| Avena | | | 2018 |  | 84 |  | 13 |  | 71 |  | 12 |  | 13 |  | $450 | - $475 |  |
| Tamarack | | | 2018 |  | 84 |  | 31 |  | 53 |  | 28 |  | 31 |  | $470 | - $515 |  |
| Braeburn | | | 2018 |  | 82 |  | — | | 82 |  | 10 |  | — | | $420 | - $460 |  |
| Canvas | | | 2018 |  | 89 |  | — | | 89 |  | 9 |  | — | | $400 | - $425 |  |
| Kadence | | | 2018 |  | 85 |  | — | | 85 |  | 4 |  | — | | $420 | - $440 |  |
| Newpark | | | 2018 |  | 93 |  | — | | 93 |  | 12 |  | — | | $445 | - $495 |  |
| Easton | | | 2018 |  | 92 |  | — | | 92 |  | 4 |  | — | | $475 | - $530 |  |

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|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Tournament Hills Future | TBD | 268 |  | — | | 268 |  | — | | — | TBD |
| Banning | 2020 | 4,344 |  | — | | 4,344 |  | — | | — | TBD |
| San Joaquin County: |  |  |  |  |  |  |  |  |  |  |  |
| Bear Creek | TBD | 1,252 |  | — | | 1,252 |  | — | | — | TBD |
| Closed Communities |  | — | | — | | — | | — | | 102 |  |
| **California Total** |  | **13,620** |  | **1,111** |  | **12,509** |  | **430** |  | **628** |  |
| **Nevada** |  |  |  |  |  |  |  |  |  |  |  |
| Clark County: |  |  |  |  |  |  |  |  |  |  |  |
| North Peak | 2015 | 176 |  | 174 |  | 2 |  | 1 |  | 52 | $312 - $370 |
| Castle Rock | 2015 | 183 |  | 171 |  | 12 |  | 9 |  | 55 | $365 - $455 |
| Escala | 2016 | 64 |  | 61 |  | 3 |  | — | | 8 | $520 - $590 |
| Strada | 2017 | 143 |  | 34 |  | 109 |  | 24 |  | 10 | $420 - $470 |
| Linea | 2018 | 123 |  | 3 |  | 120 |  | 58 |  | 3 | $360 - $400 |
| Inspirada Town Center | 2020 | 160 |  | — | | 160 |  | — | | — | TBD |
| Meridian | 2016 | 62 |  | 59 |  | 3 |  | 3 |  | 17 | $595 - $690 |
| Pebble Estate Future | TBD | 8 |  | — | | 8 |  | — | | — | TBD |
| Encanto | 2016 | 51 |  | 47 |  | 4 |  | 2 |  | 13 | $475 - $530 |
| Luma | 2018 | 63 |  | 20 |  | 43 |  | 28 |  | 20 | $490 - $530 |
| Evolve | 2019 | 74 |  | — | | 74 |  | — | | — | TBD |
| Horizon Terrace | 2014 | 165 |  | 164 |  | 1 |  | — | | 29 | $420 - $470 |
| Corterra | 2018 | 112 |  | — | | 112 |  | 7 |  | — | $460 - $550 |
| Keystone | 2017 | 70 |  | 57 |  | 13 |  | 7 |  | 33 | $460 - $550 |
| Cobalt | 2017 | 124 |  | 34 |  | 90 |  | 10 |  | 29 | $375 - $450 |
| Onyx | 2018 | 71 |  | 2 |  | 69 |  | 8 |  | 2 | $450 - $485 |
| Axis | 2017 | 78 |  | 22 |  | 56 |  | 24 |  | 12 | $850 - $1,125 |
| Midnight Ridge | 2019 | 104 |  | — | | 104 |  | — | | — | $540 - $585 |
| Pivot | 2017 | 88 |  | 40 |  | 48 |  | 4 |  | 30 | $405 - $470 |
| Strada at Pivot | 2,017 | 27 |  | 24 |  | 3 |  | 2 |  | 17 | $450 - $480 |
| Nova Ridge | 2017 | 108 |  | 21 |  | 87 |  | 33 |  | 20 | $665 - $825 |
| Tera Luna | 2018 | 116 |  | 2 |  | 114 |  | 4 |  | 2 | $545 - $660 |
| Indogo | 2018 | 202 |  | — | | 202 |  | 26 |  | — | $315 - $360 |
| Larimar | 2018 | 170 |  | — | | 170 |  | 4 |  | — | $380 - $420 |
| Blackstone | 2018 | 140 |  | — | | 140 |  | 14 |  | — | $400 - $500 |
| Cactus/Jones | 2019 | 54 |  | — | | 54 |  | — | | — | $350 - $375 |
| Sandalwood | 2020 | 117 |  | — | | 117 |  | — | | — | $685 - $815 |
| Closed Communities | N/A | — | | — | | — | | — | | 25 |  |
| **Nevada Total** |  | **2,853** |  | **935** |  | **1,918** |  | **268** |  | **377** |  |
| **Pardee Total** |  | **16,473** |  | **2,046** |  | **14,427** |  | **698** |  | **1,005** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |

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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)** | | **2018** |  | **2018(3)** |  | **2018(4)(5)** |  | **2018** |  | **(in thousands)(6)** | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Washington** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Snohomish County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| The Grove at Canyon Park, Bothell | | | 2017 |  | 60 |  | 59 |  | 1 |  | 1 |  | 21 | $760 | | |  |
| Greenstone Heights, Bothell | | | 2017 |  | 41 |  | 21 |  | 20 |  | 15 |  | 19 | $970 - $1,150 | | |  |
| Grove North, Bothell | | | 2019 |  | 43 |  | — | | 43 |  | — |  | — | $765 | | - $900 |  |
| Grove South, Bothell | | | 2019 |  | 9 |  | — | | 9 |  | — |  | — | $785 | | - $820 |  |
| King County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Vareze, Kirkland | | | 2019 |  | 82 |  | — | | 82 |  | — |  | — | $700 | | - $940 |  |
| Hazelwood Ridge, Newcastle | | | 2017 |  | 30 |  | 28 |  | 2 |  | 1 |  | 6 | $1,059 | | - $1,069 |  |
| Inglewood Landing, Sammamish | | | 2018 |  | 21 |  | — | | 21 |  | 8 |  | — | $1,150 | | - $1,330 |  |
| Jacobs Landing, Sammamish | | | 2017 |  | 20 |  | 12 |  | 8 |  | 4 |  | 11 | $1,160 | | - $1,280 |  |
| Kirkwood Terrace, Sammamish | | | 2018 |  | 12 |  | — | | 12 |  | 6 |  | — | $1,800 | | - $2,300 |  |
| English Landing P2, Redmond | | | 2017 |  | 25 |  | 24 |  | 1 |  | — |  | 17 | $1,272 | | |  |
| English Landing P1, Redmond | | | 2018 |  | 50 |  | 12 |  | 38 |  | 27 |  | 12 | $1,170 | | - $1,425 |  |
| Cedar Landing, North Bend | | | 2019 |  | 138 |  | — | | 138 |  | — |  | — | $685 | | - $860 |  |
| Monarch Ridge, Sammamish | | | 2019 |  | 59 |  | — | | 59 |  | — |  | — | $970 - $1,145 | | |  |
| Overlook at Summit Park, Maple Valley | | | 2019 |  | 126 |  | — | | 126 |  | — |  | — | $590 | | - $745 |  |
| Ray Meadows, Redmond | | | 2018 |  | 27 |  | — | | 27 |  | 8 |  | — | $1,165 | | - $1,390 |  |
| Wynstone, Federal Way | | | TBD | | 1 |  | — | | 1 |  | — |  | — |  | TBD | |  |
| Canton Crossing, Maple Valley | | | 2017 |  | 51 |  | 47 |  | 4 |  | 3 |  | 31 | $585 | | - $650 |  |
| Aurea, Sammamish | | | 2019 |  | 41 |  | — | | 41 |  | — |  | — | $710 | | - $895 |  |
| Aldea, Newcastle | | | 2019 |  | 129 |  | — | | 129 |  | 10 |  | — | $685 | | - $925 |  |
| Lario, Bellevue | | | 2019 |  | 46 |  | — | | 46 |  | — |  | — | $810 - $1,140 | | |  |
| Soundview Manor, Federal Way | | | 2018 |  | 21 |  | — | | 21 |  | 2 |  | — | $566 | | - $660 |  |
| Eagles Glen, Sammamish | | | 2019 |  | 10 |  | — | | 10 |  | — |  | — | $1,100 | | - $1,350 |  |
| Finn Meadows, Kirkland | | | 2019 |  | 5 |  | — | | 5 |  | — |  | — | $990 - $1,100 | | |  |
| Pierce County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Harbor Hill S-5/6, Gig Harbor | | | 2017 |  | 72 |  | 50 |  | 22 |  | 15 |  | 27 | $453 | | - $523 |  |
| Harbor Hill S-2, Gig Harbor | | | 2017 |  | 41 |  | 27 |  | 14 |  | 11 |  | 20 | $425 | | - $480 |  |
| Kitsap County: | | |  |  |  |  |  |  |  |  | — |  | — |  |  |  |  |
| Mountain Aire, Poulsbo | | | 2016 |  | 145 |  | 127 |  | 18 |  | 18 |  | 50 | $439 | | - $499 |  |
| Winslow Grove, Bainbridge Island | | | 2018 |  | 19 |  | — | | 19 |  | — | 0 | — | $1,047 | | - $1,192 |  |
| Blue Heron, Poulsbo | | | 2020 |  | 85 |  | — | | 85 |  | — | 0 | — | $474 | | - $649 |  |
| Closed Communities | | | N/A | | — | | — | | — | | — |  | 27 |  | N/A | |  |
| **Washington Total** | | |  |  | **1,409** |  | **407** |  | **1,002** |  | **129** |  | **241** |  |  |  |  |
| **Quadrant Total** | | |  |  | **1,409** |  | **407** |  | **1,002** |  | **129** |  | **241** |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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***Trendmaker Homes***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **Cumulative** | |  |  |  |  | **Homes** |  |  |  |
|  |  |  |  |  |  |  | **Homes** | |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  | **Delivered** | | **Lots** | |  |  | **Delivered** |  |  |  |
|  |  |  | **Year of** | | **Total** | | **as of** | | **Backlog as of** | | **for the Nine** |  | **Sales Price** |  |
|  |  |  | **September** | | **Owned as of** | | **Months Ended** |  |  |
|  |  |  | **First** | | **Number of** | | **30,** |  | **September** | | **September 30,** | | **September 30,** |  | **Range** |  |
| **County, Project, City** | | | **Delivery(1)** | | **Lots(2)** | | **2018** |  | **30, 2018(3)** |  | **2018(4)(5)** |  | **2018** |  | **(in thousands)(6)** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Texas** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Brazoria County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Pomona, Manvel | | | 2015 |  | 49 |  | 30 |  | 19 |  | 2 |  | 9 | $375 - $471 | |  |
| Rise Meridiana | | | 2016 |  | 47 |  | 26 |  | 21 |  | 2 |  | 9 | $292 - $350 | |  |
| Fort Bend County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cross Creek Ranch 60', Fulshear | | | 2013 |  | 48 |  | 28 |  | 20 |  | 3 |  | 13 | $370 - $470 | |  |
| Cross Creek Ranch 65', Fulshear | | | 2013 |  | 81 |  | 60 |  | 21 |  | 7 |  | 9 | $437 - $509 | |  |
| Cross Creek Ranch 70', Fulshear | | | 2013 |  | 111 |  | 86 |  | 25 |  | 5 |  | 14 | $490 - $561 | |  |
| Cross Creek Ranch 80', Fulshear | | | 2013 |  | 71 |  | 46 |  | 25 |  | 12 |  | 6 | $557 - $676 | |  |
| Cross Creek Ranch 90', Fulshear | | | 2013 |  | 37 |  | 30 |  | 7 |  | 3 |  | 4 | $695 - $759 | |  |
| Fulshear Run 1/2 Acre, Richmond | | | 2016 |  | 54 |  | 27 |  | 27 |  | 12 |  | 9 | $573 - $679 | |  |
| Harvest Green 75', Richmond | | | 2015 |  | 38 |  | 31 |  | 7 |  | 3 |  | 11 | $446 - $543 | |  |
| Sienna Plantation 85', Missouri City | | | 2015 |  | 39 |  | 23 |  | 16 |  | 6 |  | 7 | $546 - $645 | |  |
| Villas at Aliana, Richmond | | | 2013 |  | 117 |  | 116 |  | 1 |  | — | | 10 | $465 | |  |
| Harris County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| The Groves, Humble | | | 2015 |  | 108 |  | 64 |  | 44 |  | 5 |  | 9 | $323 - $524 | |  |
| Lakes of Creekside | | | 2015 |  | 38 |  | 12 |  | 26 |  | 3 |  | 3 | $460 - $611 | |  |
| Bridgeland '80, Cypress | | | 2015 |  | 141 |  | 116 |  | 25 |  | 9 |  | 15 | $549 - $636 | |  |
| Bridgeland Patio, Cypress 60' | | | 2017 |  | 32 |  | 29 |  | 3 |  | 2 |  | 14 | $429 | |  |
| Bridgeland 70' | | | 2018 |  | 30 |  | 3 |  | 27 |  | 1 |  | 3 | $461 - $543 | |  |
| Villas at Bridgeland 50' | | | 2018 |  | 25 |  | — | | 25 |  | 3 |  | — | $362 - $395 | |  |
| Elyson 70', Cypress | | | 2016 |  | 20 |  | 12 |  | 8 |  | 4 |  | 4 | $400 - $544 | |  |
| Hidden Arbor, Cypress | | | 2015 |  | 129 |  | 122 |  | 7 |  | 2 |  | 34 | $395 - $550 | |  |
| Clear Lake, Houston | | | 2015 |  | 778 |  | 401 |  | 377 |  | 69 |  | 80 | $335 - $663 | |  |
| Montgomery County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Woodtrace, Woodtrace | | | 2014 |  | 39 |  | 36 |  | 3 |  | 1 |  | 6 | $512 - $532 | |  |
| Northgrove, Tomball | | | 2015 |  | 25 |  | 7 |  | 18 |  | — | | 2 |  | TBD |  |
| Bender's Landing Estates, Spring | | | 2014 |  | 104 |  | 83 |  | 21 |  | 6 |  | 23 | $511 - $584 | |  |
| The Woodlands, Creekside Park | | | 2015 |  | 114 |  | 62 |  | 52 |  | 12 |  | 23 | $413 - $639 | |  |
| Royal Brook, Porter | | | 2019 |  | 12 |  | — | | 12 |  | — | | — |  | TBD |  |
| Waller County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cane Island, Katy | | | 2015 |  | 23 |  | 22 |  | 1 |  | 1 |  | 2 | $525 - $634 | |  |
| LakeHouse | | | TBD | | 350 |  | — | | 350 |  | — | | — |  | TBD |  |
| Williamson County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Crystal Falls | | | 2016 |  | 29 |  | 24 |  | 5 |  | 1 |  | 8 | $595 | |  |
| Rancho Sienna 60' | | | 2016 |  | 38 |  | 14 |  | 24 |  | 4 |  | 10 | $340 - $420 | |  |
| Rancho Sienna 80' | | | 2018 |  | 5 |  | — | | 5 |  | 3 |  | — | $456 - $517 | |  |
| Highlands at Mayfield Ranch 50' | | | 2019 |  | 36 |  | 5 |  | 31 |  | 2 |  | — | $280 - $344 | |  |
| Highlands at Mayfield Ranch 60' | | | 2019 |  | 23 |  | — | | 23 |  | 3 |  | — | $340 - $406 | |  |
| Rancho Sienna 50' | | | 2019 |  | 14 |  | — | | 14 |  | — | | — | $291 - $348 | |  |
| Palmera Ridge | | | 2019 |  | 21 |  | — | | 21 |  | — | | — |  | TBD |  |
| Hays County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Belterra 60', Austin | | | 2017 |  | 36 |  | 23 |  | 13 |  | 2 |  | 14 | $375 - $466 | |  |
| Belterra 80', Austin | | | 2016 |  | 37 |  | 32 |  | 5 |  | 1 |  | 14 | $535 - $603 | |  |
| Headwaters, Dripping Springs | | | 2017 |  | 30 |  | 18 |  | 12 |  | 9 |  | 11 | $399 - $450 | |  |
| Travis County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Lakes Edge 70' | | | 2018 |  | 45 |  | 7 |  | 38 |  | 34 |  | 7 | $652 - $792 | |  |
| Lakes Edge 80' | | | 2018 |  | 14 |  | — | | 14 |  | 7 |  | — | $650 - $835 | |  |
| Closed Communities | | | N/A | | — | | — | | — | | — | | 6 |  |  |  |
| **Texas Total** | | |  |  | **2,988** |  | **1,595** |  | **1,393** |  | **239** |  | **389** |  |  |  |
| **Trendmaker Homes Total** | | |  |  | **2,988** |  | **1,595** |  | **1,393** |  | **239** |  | **389** |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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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)** | | **2018** |  | **2018(3)** |  | **2018(4)(5)** |  | **2018** |  | **(in thousands)(6)** | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Southern California** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Orange County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Aria, Rancho Mission Viejo | | | 2016 |  | 151 |  | 128 |  | 23 |  | 19 |  | 33 | $623 | | - $716 |  |
| Viridian | | | 2018 |  | 72 |  | — | | 72 |  | 23 |  | — | $890 | | - $982 |  |
| Carlisle 10-Pack Garden Court, Irvine | | | 2017 |  | 74 |  | 72 |  | 2 |  | 2 |  | 49 | $670 | | - $849 |  |
| Sterling Row Townhomes, Irvine | | | 2017 |  | 96 |  | 78 |  | 18 |  | 18 |  | 56 | $572 | | - $779 |  |
| Varenna at Orchard Hills, Irvine | | | 2016 |  | 77 |  | 60 |  | 17 |  | 20 |  | 21 | $1,170 | | - $1,272 |  |
| Alston, Anaheim | | | 2017 |  | 75 |  | 43 |  | 32 |  | 26 |  | 24 | $805 | | - $861 |  |
| StrataPointe, Buena Park | | | 2017 |  | 149 |  | 104 |  | 45 |  | 26 |  | 50 | $515 | | - $696 |  |
| Lyric | | | 2019 |  | 70 |  | — | | 70 |  | 6 |  | — | $790 | | - $928 |  |
| Citron at Bedford | | | 2019 |  | 35 |  | — | | 35 |  | 3 |  | — |  |  |  |  |
| San Diego County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Prism at Weston | | | 2018 |  | 142 |  | 14 |  | 128 |  | 20 |  | 14 | $590 | | - $624 |  |
| Talus at Weston | | | 2018 |  | 63 |  | 19 |  | 44 |  | 16 |  | 19 | $675 | | - $717 |  |
| Riverside County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Terrassa Court, Corona | | | 2015 |  | 94 |  | 92 |  | 2 |  | 1 |  | 25 | $421 | | - $499 |  |
| Terrassa Villas, Corona | | | 2015 |  | 52 |  | 38 |  | 14 |  | 10 |  | 24 | $472 | | - $549 |  |
| Cypress Ridge | | | 2019 |  | 245 |  | — | | 245 |  | — | | — |  |  |  |  |
| Los Angeles County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| VuePointe, El Monte | | | 2017 |  | 102 |  | 69 |  | 33 |  | 24 |  | 55 | $446 | | - $569 |  |
| Bradford @ Rosedale, Azusa | | | 2017 |  | 52 |  | 41 |  | 11 |  | 9 |  | 26 | $816 | | - $906 |  |
| Lucera at Aliento | | | 2017 |  | 67 |  | 50 |  | 17 |  | 10 |  | 27 | $622 | | - $648 |  |
| Tierno at Aliento | | | 2017 |  | 63 |  | 48 |  | 15 |  | 1 |  | 21 | $667 | | - $695 |  |
| Tierno II at Aliento | | | 2018 |  | 63 |  | 2 |  | 61 |  | 12 |  | 2 | $642 | | - $703 |  |
| Paloma at West Creek | | | 2018 |  | 155 |  | 19 |  | 136 |  | 29 |  | 19 | $444 | | - $496 |  |
| San Bernardino County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| St. James at Park Place, Ontario | | | 2015 |  | 125 |  | 119 |  | 6 |  | — | | 10 | $509 | | - $560 |  |
| St. James III at Park Place, Ontario | | | 2018 |  | 82 |  | — | | 82 |  | 35 |  | — | $509 | | - $560 |  |
| The Preserve | | | 2019 |  | 246 |  | — | | 246 |  | — | | — |  |  |  |  |
| Closed Communities | | | N/A | | — | | — | | — | | — | | 30 |  |  |  |  |
| **Southern California Total** | | |  |  | **2,350** |  | **996** |  | **1,354** |  | **310** |  | **505** |  |  |  |  |
| **Northern California** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Contra Costa County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Marquette at Barrington, Brentwood | | | 2015 |  | 90 |  | 89 |  | 1 |  | 1 |  | 14 | $695 | | - $730 |  |
| Wynstone at Barrington, Brentwood | | | 2017 |  | 92 |  | 62 |  | 30 |  | 11 |  | 26 | $536 | | - $667 |  |
| Santa Clara County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Madison Gate | | | 2018 |  | 65 |  | 13 |  | 52 |  | 7 |  | 13 | $847 - $1,184 | | |  |
| Luchessa | | | 2019 |  | 49 |  | — | | 49 |  | — | | — | $755 | | - $799 |  |
| The Grove | | | 2019 |  | 64 |  | — | | 64 |  | — | | — | $850 | | - $920 |  |
| Solano County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Redstone, Vacaville | | | 2015 |  | 141 |  | 134 |  | 7 |  | 6 |  | 28 | $505 | | - $573 |  |
| Green Valley-Bloom, Fairfield | | | 2018 |  | 91 |  | 22 |  | 69 |  | 9 |  | 22 | $555 | | - $605 |  |
| Green Valley-Harvest, Fairfield | | | 2018 |  | 56 |  | 19 |  | 37 |  | 9 |  | 19 | $575 | | - $640 |  |
| Villages of Fairfield | | | 2018 |  | 133 |  | — | | 133 |  | — | | — | $455 | | - $490 |  |
| San Joaquin County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Sundance, Mountain House | | | 2015 |  | 113 |  | 107 |  | 6 |  | 1 |  | 2 | $668 | | - $741 |  |
| Sundance II, Mountain House | | | 2017 |  | 138 |  | 42 |  | 96 |  | 17 |  | 39 | $668 | | - $741 |  |
| Alameda County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Commercial, Alameda Landing | | | 2018 |  | 2 |  | — | | 2 |  | — | | — | $575 | | |  |
| Blackstone at the Cannery, Hayward SFA | | | 2016 |  | 105 |  | 98 |  | 7 |  | 6 |  | 24 | $666 - $776 | | |  |
| Slate at Jordan Ranch, Dublin | | | 2017 |  | 56 |  | 44 |  | 12 |  | 7 |  | 28 | $1,125 - $1,225 | | |  |

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|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Onyx at Jordan Ranch, Dublin | 2017 | 105 |  | 34 |  | 71 |  | 20 |  | 25 | $934 - $986 |
| Quartz at Jordan Ranch, Dublin | 2018 | 45 |  | 11 |  | 34 |  | 19 |  | 11 | $958 - $1,098 |
| Mission Stevenson, Fremont | 2018 | 77 |  | 7 |  | 70 |  | 34 |  | 7 | $858 - $1,177 |
| Palm Avenue, Fremont | 2018 | 31 |  | — | | 31 |  | 1 |  | — | $2,250 - $2,392 |
| Pleasant Hill | 2019 | 44 |  | — | | 44 |  | — | | — | $890 - $960 |
| Parkside, Oakland | 2019 | 128 |  | — | | 128 |  | — | | — | $720 - $805 |
| Sacramento County: |  |  |  |  |  |  |  |  |  |  |  |
| Natomas | 2019 | 94 |  | — | | 94 |  | — | | — | $344 - $410 |
| Twelve Bridges | 2019 | 102 |  | — | | 102 |  | — | | — | $432 - $528 |
| San Francisco County: |  |  |  |  |  |  |  |  |  |  |  |
| Cambridge Street SFA | 2020 | 54 |  | — | | 54 |  | — | | — | $985 - $1,215 |
| Closed Communities | N/A | — | | — | | — | | — | | 38 |  |
| **Northern California Total** |  | **1,875** |  | **682** |  | **1,193** |  | **148** |  | **296** |  |
| **California Total** |  | **4,225** |  | **1,678** |  | **2,547** |  | **458** |  | **801** |  |
| **Colorado** |  |  |  |  |  |  |  |  |  |  |  |
| Douglas County: |  |  |  |  |  |  |  |  |  |  |  |
| Terrain Ravenwood Village (3500) | 2018 | 157 |  | 24 |  | 133 |  | 33 |  | 24 | $366 - $425 |
| Terrain Ravenwood Village (4000) | 2018 | 100 |  | 24 |  | 76 |  | 17 |  | 24 | $400 - $466 |
| Jefferson County: |  |  |  |  |  |  |  |  |  |  |  |
| Candelas 6000 Series, Arvada | 2015 | 76 |  | 74 |  | 2 |  | 1 |  | 21 | $516 - $671 |
| Candelas 3500 Series, Arvada | 2016 | 97 |  | 66 |  | 31 |  | 27 |  | 30 | $398 - $454 |
| Candelas 5000 Series, Arvada | 2017 | 62 |  | 32 |  | 30 |  | 20 |  | 23 | $499 - $584 |
| Candelas 4000 Series, Arvada | 2018 | 98 |  | — | | 98 |  | 14 |  | — | $458 - $520 |
| Crown Pointe, Westminster | 2019 | 64 |  | — | | 64 |  | — | | — | $430 - $490 |
| Arapahoe County: |  |  |  |  |  |  |  |  |  |  |  |
| Whispering Pines, Aurora | 2015 | 115 |  | 56 |  | 59 |  | 18 |  | 29 | $572 - $656 |
| Adams County: |  |  |  |  |  |  |  |  |  |  |  |
| Amber Creek, Thornton | 2017 | 121 |  | 54 |  | 67 |  | 39 |  | 25 | $386 - $477 |
| Closed Communities | N/A | — | | — | | — | | — | | 6 |  |
| **Colorado Total** |  | **890** |  | **330** |  | **560** |  | **169** |  | **182** |  |
| **TRI Pointe Total** |  | **5,115** |  | **2,008** |  | **3,107** |  | **627** |  | **983** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |

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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)** | | **2018** |  | **2018(3)** |  | **2018(4)(5)** |  | **2018** |  | **(in thousands)(6)** | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Maryland** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Anne Arundel County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Two Rivers Townhomes, Crofton | | | 2017 |  | 84 |  | 33 |  | 51 |  | 13 |  | 25 | $450 | | - $560 |  |
| Two Rivers Cascades SFD, Crofton | | | 2018 |  | 31 |  | 11 |  | 20 |  | 6 |  | 11 | $575 | | - $625 |  |
| Watson's Glen, Millersville | | | 2015 |  | 103 |  | 4 |  | 99 |  | — | | — |  | Closed | |  |
| Frederick County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Landsdale, Monrovia | | |  |  | — | |  |  |  |  |  |  |  |  |  |  |  |
| Landsdale SFD | | | 2015 |  | 222 |  | 112 |  | 110 |  | 19 |  | 26 | $495 | | - $597 |  |
| Landsdale Townhomes | | | 2015 |  | 100 |  | 70 |  | 30 |  | 6 |  | 23 | $330 | | - $383 |  |
| Landsdale TND Neo SFD | | | 2015 |  | 77 |  | 39 |  | 38 |  | 5 |  | 12 | $440 | | - $473 |  |
| Montgomery County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cabin Branch, Clarksburg | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cabin Branch SFD | | | 2014 |  | 359 |  | 183 |  | 176 |  | 25 |  | 39 | $510 - $745 | | |  |
| Cabin Branch Avenue Townhomes | | | 2017 |  | 121 |  | 43 |  | 78 |  | 8 |  | 19 | $420 | | - $485 |  |
| Cabin Branch Townhomes | | | 2014 |  | 507 |  | 267 |  | 240 |  | 12 |  | 46 | $393 - $438 | | |  |
| Preserve at Stoney Spring | | | N/A | | 5 |  | — | | 5 |  | — | | — |  | NA | |  |
| Poplar Run SFD, Silver Spring | | | 2010 |  | 305 |  | 298 |  | 7 |  | 6 |  | 17 | $635 - $770 | | |  |
| Glenmont MetroCenter, Silver Spring | | | 2016 |  | 171 |  | 63 |  | 108 |  | 14 |  | 27 | $435 - $513 | | |  |
| Chapman Row, Rockville | | | 2019 |  | 61 |  | — | | 61 |  | — | | — |  | TBD | |  |
| Randolph Farms, Rockville | | | 2019 |  | 104 |  | — | | 104 |  | — | | — |  | TBD | |  |
| Closed Communities | | | N/A | | — | | — | | — | | — | | 8 |  |  |  |  |
| **Maryland Total** | | |  |  | **2,250** |  | **1,123** |  | **1,127** |  | **114** |  | **253** |  |  |  |  |
| **Virginia** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Fairfax County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Stuart Mill & Timber Lake, Oakton | | | 2014 |  | 14 |  | 13 |  | 1 |  | 1 |  | 4 | $1,363 | | - $1,675 |  |
| Stuart Mill, Oakton | | | N/A | | 5 |  | — | | 5 |  | — | | — |  | NA | |  |
| Westgrove, Fairfax | | | 2018 |  | 24 |  | — | | 24 |  | 4 |  | — | $996 - $1,102 | | |  |
| West Oaks Corner, Fairfax | | | 2019 |  | 188 |  | — | | 188 |  | — | | — |  | TBD | |  |
| Prince William County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Villages of Piedmont, Haymarket | | | 2015 |  | 168 |  | 153 |  | 15 |  | 15 |  | 44 | $373 | | - $460 |  |
| Loudoun County: | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Brambleton, Ashburn | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| West Park SFD | | | 2018 |  | 36 |  | 14 |  | 22 |  | 12 |  | 14 | $708 | | - $724 |  |
| Birchwood AA | | | 2018 |  | 16 |  | 2 |  | 14 |  | 15 |  | 2 | $574 | | - $629 |  |
| Vistas at Lansdowne, Lansdowne | | | 2015 |  | 120 |  | 91 |  | 29 |  | 20 |  | 20 | $536 | | - $576 |  |
| Willowsford Grant II, Aldie | | | 2016 |  | 49 |  | 16 |  | 33 |  | 11 |  | 6 | $950 - $1,226 | | |  |
| Willowsford Greens | | | N/A | | 2 |  | — | | 2 |  | — | | — |  | NA | |  |
| Closed Communities | | | N/A | | — | | — | | — | | — | | — |  |  |  |  |
| **Virginia Total** | | |  |  | **622** |  | **289** |  | **333** |  | **78** |  | **90** |  |  |  |  |
| **Winchester Total** | | |  |  | **2,872** |  | **1,412** |  | **1,460** |  | **192** |  | **343** |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Combined Company Total** | | |  |  | **32,234** |  | **8,344** |  | **23,890** |  | **2,101** |  | **3,344** |  |  |  |  |
| \_\_\_\_\_\_\_\_\_\_ | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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, 2018 include owned lots in backlog as of September 30, 2018.
4. Backlog consists of homes under sales contracts that have 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, 2018, 1,642 homes are under construction, 245 homes have completed construction, and 214 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 included in this Quarterly Report on Form 10-Q, which have been prepared in accordance with GAAP. Our condensed notes to the unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q and the audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 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.

Except for accounting policies related to our adoption of ASC 606, there have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. 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 for the critical accounting policies resulting from our adoption of ASC 606.

**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, 2018. We did not enter into during the nine months ended September 30, 2018, 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, 2018.

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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 three months ended September 30, 2018 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 three months ended September 30, 2018.

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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*, to 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**

*There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017. If any of the risks discussed 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 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.”*

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

On February 16, 2018, our board of directors discontinued and cancelled the 2017 Repurchase Program and approved the 2018 Repurchase Program, authorizing the repurchase of shares of common stock with an aggregate value of up to $100 million through March 31, 2019. On August 21, 2018, our board of directors authorized the repurchase of up to an additional $100 million through March 31, 2019, increasing the aggregate value of shares of common stock authorized to be repurchased under the 2018 Repurchase Program to $200 million from $100 million. Purchases of common stock pursuant to the 2018 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 under the Exchange Act. We are not obligated under the 2018 Repurchase Program to repurchase any specific number or dollar amount of shares of common stock, and we may modify, suspend or discontinue the 2018 Repurchase 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 and nine months ended September 30, 2018, we repurchased and retired an aggregate of 9.9 million shares of our common stock under the 2018 Repurchase Program for $139.3 million.

During the three months ended September 30, 2018, we repurchased and retired the following shares pursuant to our 2018 Repurchase Program:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **Total number of** |  | **Approximate dollar** | |  |
|  | **Total number of** |  |  | **Average price paid** | | **shares purchased as** |  | **value of shares that** | |  |
|  |  |  | **part of publicly** |  | **may yet be purchased** | |  |
|  | **shares purchased** |  |  | **per share** |  | **announced program** |  | **under the program (1)** | |  |
| July 1, 2018 to July 31, 2018 | 234,800 | $ | | 14.66 |  | 234,800 | $ | | 96,556,705 |  |
| August 1, 2018 to August 31, 2018 | 6,420,600 | $ | | 14.23 |  | 6,420,600 | $ | | 105,215,650 |  |
|  |  |  |  |  |  |  |  |  |  |  |
| September 1, 2018 to September 30, 2018 | 3,196,609 | $ | | 13.94 |  | 3,196,609 | $ | | 60,651,729 |  |
| Total | 9,852,009 | $ | | 14.14 |  | 9,852,009 |  |  |  |  |
| \_\_\_\_\_\_\_\_\_\_ |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |

1. The Company announced the authorization of the 2018 Repurchase Program on February 20, 2018 and the increase in authorization on August 21, 2018. During the three months ended September 30, 2018, we repurchased and retired an aggregate of 9.9 million shares of our common stock under the 2018 Repurchase Program for $139.3 million.
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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](#page64) | | Chief Executive Officer Section 302 Certification of the Sarbanes-Oxley Act of 2002 |
|  |  |  |
| [31.2](#page65) | | Chief Financial Officer Section 302 Certification of the Sarbanes-Oxley Act of 2002 |
|  |  |  |
| [32.1](#page66) | | Chief Executive Officer Section 906 Certification of the Sarbanes-Oxley Act of 2002 |
|  |  |  |
| [32.2](#page67) | | 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, 2018, 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 24, 2018

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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 24, 2018 /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 24, 2018 /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, 2018 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 24, 2018 /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, 2018 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 24, 2018 /s/ Michael D. Grubbs



Michael D. Grubbs

Chief Financial Officer (Principal Financial Officer)