**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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

**FORM 10-Q**

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

**(Mark One)**

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

**For the quarterly period ended June 30, 2021**

**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 Homes, 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.)** |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | |
|  | **940 Southwood Blvd, Suite 200** |
|  | **Incline Village, Nevada 89451** |
|  | **(Address of principal executive offices) (Zip Code)** |
|  | **Registrant’s telephone number, including area code (775) 413-1030** |
|  | **Not Applicable** |

**(Former name, former address and former fiscal year, if changed since last report)**

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Securities registered pursuant to Section 12(b) of the Act: | |  |  |  |
| **Title of each class** | | **Trading Symbol(s)** | | **Name of each exchange on which registered** |
| Common Stock, par value $0.01 per share |  | TPH |  | New York Stock Exchange |

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

|  |  |  |  |
| --- | --- | --- | --- |
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | 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 ☒ 113,789,302 shares of the registrant's common stock were issued and outstanding as of July 12, 2021.



**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 annual report on Form 10-Q) refer to Tri Pointe Homes, Inc., a Delaware corporation, and its consolidated subsidiaries.

Effective January 15, 2021, the Company changed its corporate name from “TRI Pointe Group, Inc.” to “Tri Pointe Homes, Inc.”



**TRI POINTE HOMES, INC.**

**QUARTERLY REPORT ON FORM 10-Q**

**INDEX**

**June 30, 2021**

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**PART I. FINANCIAL INFORMATION**

**Item 1.** **Financial Statements**

**TRI POINTE HOMES, INC.**

**CONSOLIDATED BALANCE SHEETS**

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **June 30, 2021** | |  | **December 31, 2020** |  |
|  |  | (unaudited) |  |  |  |  |
| **Assets** |  |  |  |  |  |  |
| Cash and cash equivalents | $ | 556,483 |  | $ | 621,295 |  |
| Receivables |  | 91,348 |  |  | 63,551 |  |
| Real estate inventories |  | 3,085,582 |  |  | 2,910,142 |  |
| Investments in unconsolidated entities |  | 74,051 |  |  | 75,056 |  |
| Goodwill and other intangible assets, net |  | 156,604 |  |  | 158,529 |  |
| Deferred tax assets, net |  | 44,388 |  |  | 47,525 |  |
| Other assets |  | 151,701 |  |  | 145,882 |  |
| Total assets | $ | 4,160,157 |  | $ | 4,021,980 |  |
| **Liabilities** |  |  |  |  |  |  |
|  |  |  |  |  |  |
| Accounts payable | $ | 141,143 |  | $ | 79,690 |  |
| Accrued expenses and other liabilities |  | 395,138 |  |  | 366,740 |  |
| Loans payable |  | 258,979 |  |  | 258,979 |  |
| Senior notes, net |  | 1,085,595 |  |  | 1,084,022 |  |
| Total liabilities |  | 1,880,855 |  |  | 1,789,431 |  |
|  |  |  |  |  |  |  |
| 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 June 30, 2021 and |  | — | |  | — |  |
| December 31, 2020, respectively |  |  |  |
| Common stock, $0.01 par value, 500,000,000 shares authorized; |  |  |  |  |  |  |
| 115,211,206 and 121,882,778 shares issued and outstanding at |  | 1,150 |  |  | 1,219 |  |
| June 30, 2021 and December 31, 2020, respectively |  |  |  |  |
| Additional paid-in capital |  | 203,288 |  |  | 345,137 |  |
| Retained earnings |  | 2,074,852 |  |  | 1,886,181 |  |
| Total stockholders’ equity |  | 2,279,290 |  |  | 2,232,537 |  |
| Noncontrolling interests |  | 12 |  |  | 12 |  |
| Total equity |  | 2,279,302 |  |  | 2,232,549 |  |
| Total liabilities and equity | $ | 4,160,157 |  | $ | 4,021,980 |  |
|  |  |  |  |  |  |  |

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

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**TRI POINTE HOMES, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(unaudited)**

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June 30,** | | | | |  | **Six Months Ended June 30,** | | | |  |
|  |  | **2021** |  |  | **2020** |  |  | **2021** |  |  | **2020** |  |
| **Homebuilding:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Home sales revenue | $ | 1,009,307 |  | $ | 766,942 |  | $ | 1,725,982 |  | $ | 1,361,780 |  |
| Land and lot sales revenue |  | 5,416 |  |  | 220 |  |  | 6,939 |  |  | 220 |  |
| Other operations revenue |  | 660 |  |  | 648 |  |  | 1,323 |  |  | 1,266 |  |
| Total revenues |  | 1,015,383 |  |  | 767,810 |  |  | 1,734,244 |  |  | 1,363,266 |  |
| Cost of home sales |  | 761,215 |  |  | 601,434 |  |  | 1,306,571 |  |  | 1,074,316 |  |
| Cost of land and lot sales |  | 4,874 |  |  | 374 |  |  | 5,027 |  |  | 576 |  |
| Other operations expense |  | 686 |  |  | 624 |  |  | 1,310 |  |  | 1,248 |  |
| Sales and marketing |  | 45,489 |  |  | 45,194 |  |  | 85,949 |  |  | 87,831 |  |
| General and administrative |  | 51,263 |  |  | 37,554 |  |  | 92,612 |  |  | 77,391 |  |
| Restructuring charges |  | — | |  | 5,549 |  |  | — | |  | 5,549 |  |
| Homebuilding income from operations |  | 151,856 |  |  | 77,081 |  |  | 242,775 |  |  | 116,355 |  |
| Equity in loss of unconsolidated entities |  | (16) |  |  | (25) |  |  | (29) |  |  | (39) |  |
| Other income (loss), net |  | 149 |  |  | (6,328) |  |  | 257 |  |  | (5,955) |  |
| Homebuilding income before income taxes |  | 151,989 |  |  | 70,728 |  |  | 243,003 |  |  | 110,361 |  |
| **Financial Services:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Revenues |  | 2,681 |  |  | 2,296 |  |  | 4,786 |  |  | 3,890 |  |
| Expenses |  | 1,485 |  |  | 1,285 |  |  | 2,892 |  |  | 2,364 |  |
| Equity in income of unconsolidated entities |  | 3,949 |  |  | 2,932 |  |  | 6,640 |  |  | 4,488 |  |
| Financial services income before income taxes |  | 5,145 |  |  | 3,943 |  |  | 8,534 |  |  | 6,014 |  |
| **Income before income taxes** |  | 157,134 |  |  | 74,671 |  |  | 251,537 |  |  | 116,375 |  |
| Provision for income taxes |  | (39,265) |  |  | (18,143) |  |  | (62,866) |  |  | (27,964) |  |
| Net income | $ | 117,869 |  | $ | 56,528 |  | $ | 188,671 |  | $ | 88,411 |  |
| Earnings per share |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic | $ | 1.01 |  | $ | 0.43 |  | $ | 1.60 |  | $ | 0.67 |  |
| Diluted | $ | 1.00 |  | $ | 0.43 |  | $ | 1.59 |  | $ | 0.67 |  |
| Weighted average shares outstanding |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic |  | 116,824,108 |  |  | 130,292,563 |  |  | 118,082,691 |  |  | 132,326,856 |  |
| Diluted |  | 117,770,084 |  |  | 130,506,567 |  |  | 118,921,340 |  |  | 132,763,775 |  |

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

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**TRI POINTE HOMES, INC.**

**CONSOLIDATED STATEMENTS OF EQUITY**

**(unaudited)**

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Number of** | |  | **Common** | |  | **Additional** | |  | **Retained** | |  | **Total** | |  | **Noncontrolling** | |  | **Total** |  |
|  | **Shares of Common** | |  |  | **Paid-in** | |  |  | **Stockholders’** | |  |  |  |
|  | **Stock (Note 1)** | |  | **Stock** | |  | **Capital** | |  | **Earnings** | |  | **Equity** | |  | **Interests** | |  | **Equity** |  |
| Balance at March 31, 2021 | 118,824,242 |  | $ | 1,188 |  | $ | 281,591 |  | $ | 1,956,983 |  | $ | 2,239,762 |  | $ | 12 |  | $ | 2,239,774 |  |
| Net income | — | |  | — | |  | — | |  | 117,869 |  |  | 117,869 |  |  | — | |  | 117,869 |  |
| Shares issued under share-based awards | 53,640 |  |  | 1 |  |  | 17 |  |  | — | |  | 18 |  |  | — | |  | 18 |  |
| Minimum tax withholding paid on behalf of | — | |  | — | |  | (14) |  |  | — | |  | (14) |  |  | — | |  | (14) |  |
| employees for restricted stock units |  |  |  |  |  |  |  |  |  |
| Stock-based compensation expense | — | |  | — | |  | 4,506 |  |  | — | |  | 4,506 |  |  | — | |  | 4,506 |  |
| Share repurchases | (3,666,676) |  |  | (39) |  |  | (82,812) |  |  | — | |  | (82,851) |  |  | — | |  | (82,851) |  |
| Balance at June 30, 2021 | 115,211,206 |  | $ | 1,150 |  | $ | 203,288 |  | $ | 2,074,852 |  | $ | 2,279,290 |  | $ | 12 |  | $ | 2,279,302 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Number of** | |  | **Common** | |  | **Additional** | |  | **Retained** | |  | **Total** | |  | **Noncontrolling** | |  | **Total** |  |
|  | **Shares of Common** | |  |  | **Paid-in** | |  |  | **Stockholders'** | |  |  |  |
|  | **Stock (Note 1)** | |  | **Stock** | |  | **Capital** | |  | **Earnings** | |  | **Equity** | |  | **Interests** | |  | **Equity** |  |
| Balance at December 31, 2020 | 121,882,778 |  | $ | 1,219 |  | $ | 345,137 |  | $ | 1,886,181 |  | $ | 2,232,537 |  | $ | 12 |  | $ | 2,232,549 |  |
| Net income | — | |  | — | |  | — | |  | 188,671 |  |  | 188,671 |  |  | — | |  | 188,671 |  |
| Shares issued under share-based awards | 654,665 |  |  | 6 |  |  | 2,828 |  |  | — | |  | 2,834 |  |  | — | |  | 2,834 |  |
| Minimum tax withholding paid on behalf of | — | |  | — | |  | (4,636) |  |  | — | |  | (4,636) |  |  | — | |  | (4,636) |  |
| employees for restricted stock units |  |  |  |  |  |  |  |  |  |
| Stock-based compensation expense | — | |  | — | |  | 8,162 |  |  | — | |  | 8,162 |  |  | — | |  | 8,162 |  |
| Share repurchases | (7,326,237) |  |  | (75) |  |  | (148,203) |  |  | — | |  | (148,278) |  |  | — | |  | (148,278) |  |
| Balance at June 30, 2021 | 115,211,206 |  | $ | 1,150 |  | $ | 203,288 |  | $ | 2,074,852 |  | $ | 2,279,290 |  | $ | 12 |  | $ | 2,279,302 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Number of** | |  | **Common** | |  | **Additional** | |  | **Retained** | |  | **Total** | |  | **Noncontrolling** | |  | **Total** |  |
|  | **Shares of Common** | |  |  | **Paid-in** | |  |  | **Stockholders'** | |  |  |  |
|  | **Stock (Note 1)** | |  | **Stock** | |  | **Capital** | |  | **Earnings** | |  | **Equity** | |  | **Interests** | |  | **Equity** |  |
| Balance at March 31, 2020 | 130,236,981 |  | $ | 1,302 |  | $ | 478,122 |  | $ | 1,635,857 |  | $ | 2,115,281 |  | $ | 12 |  | $ | 2,115,293 |  |
| Net income | — | |  | — | |  | — | |  | 56,528 |  |  | 56,528 |  |  | — | |  | 56,528 |  |
| Shares issued under share-based awards | 88,884 |  |  | 1 |  |  | 230 |  |  | — | |  | 231 |  |  | — | |  | 231 |  |
| Minimum tax withholding paid on behalf of | — | |  | — | |  | (27) |  |  | — | |  | (27) |  |  | — | |  | (27) |  |
| employees for restricted stock units |  |  |  |  |  |  |  |  |  |
| Stock-based compensation expense | — | |  | — | |  | 3,786 |  |  | — | |  | 3,786 |  |  | — | |  | 3,786 |  |
| Balance at June 30, 2020 | 130,325,865 |  | $ | 1,303 |  | $ | 482,111 |  | $ | 1,692,385 |  | $ | 2,175,799 |  | $ | 12 |  | $ | 2,175,811 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Number of** | |  | **Common** | |  | **Additional** | |  | **Retained** | |  | **Total** | |  | **Noncontrolling** | |  | **Total** |  |
|  | **Shares of Common** | |  |  | **Paid-in** | |  |  | **Stockholders'** | |  |  |  |
|  | **Stock (Note 1)** | |  | **Stock** | |  | **Capital** | |  | **Earnings** | |  | **Equity** | |  | **Interests** | |  | **Equity** |  |
| Balance at December 31, 2019 | 136,149,633 |  | $ | 1,361 |  | $ | 581,195 |  | $ | 1,603,974 |  | $ | 2,186,530 |  | $ | 12 |  | $ | 2,186,542 |  |
| Net income | — | |  | — | |  | — | |  | 88,411 |  |  | 88,411 |  |  | — | |  | 88,411 |  |
| Shares issued under share-based awards | 734,555 |  |  | 8 |  |  | 913 |  |  | — | |  | 921 |  |  | — | |  | 921 |  |
| Minimum tax withholding paid on behalf of | — | |  | — | |  | (5,473) |  |  | — | |  | (5,473) |  |  | — | |  | (5,473) |  |
| employees for restricted stock units |  |  |  |  |  |  |  |  |  |
| Stock-based compensation expense |  |  |  | — | |  | 7,411 |  |  |  |  |  | 7,411 |  |  |  |  |  | 7,411 |  |
| Share repurchases | (6,558,323) |  |  | (66) |  |  | (101,935) |  |  | — | |  | (102,001) |  |  | — | |  | (102,001) |  |
| Balance at June 30, 2020 | 130,325,865 |  | $ | 1,303 |  | $ | 482,111 |  | $ | 1,692,385 |  | $ | 2,175,799 |  | $ | 12 |  | $ | 2,175,811 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

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**TRI POINTE HOMES, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(unaudited)**

**(in thousands)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Six Months Ended June 30,** | | | |
|  |  | **2021** |  |  | **2020** |
| **Cash flows from operating activities:** |  |  |  |  |  |
| Net income | $ | 188,671 |  | $ | 88,411 |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |  |  |  |  |
| Depreciation and amortization |  | 16,120 |  |  | 12,176 |
| Equity in income of unconsolidated entities, net |  | (6,610) |  |  | (4,449) |
| Deferred income taxes, net |  | 3,136 |  |  | 10,160 |
| Amortization of stock-based compensation |  | 8,162 |  |  | 7,411 |
| Charges for impairments and lot option abandonments |  | 445 |  |  | 1,729 |
| Changes in assets and liabilities: |  |  |  |  |  |
| Real estate inventories |  | (173,740) |  |  | 53,902 |
| Receivables |  | (27,797) |  |  | (18,304) |
| Other assets |  | (7,996) |  |  | 3,677 |
| Accounts payable |  | 61,453 |  |  | 4,966 |
| Accrued expenses and other liabilities |  | 28,325 |  |  | (5,784) |
| Returns on investments in unconsolidated entities, net |  | 7,135 |  |  | 5,475 |
| Loss on extinguishment of debt |  | — | |  | 6,858 |
| Net cash provided by operating activities |  | 97,304 |  |  | 166,228 |
| **Cash flows from investing activities:** |  |  |  |  |  |
| Purchases of property and equipment |  | (8,946) |  |  | (12,002) |
| Proceeds from sale of property and equipment |  | — | |  | 17 |
| Returns of (investments in) unconsolidated entities, net |  | 480 |  |  | (25,715) |
| Net cash used in investing activities |  | (8,466) |  |  | (37,700) |
| **Cash flows from financing activities:** |  |  |  |  |  |
| Borrowings from debt |  | — | |  | 850,000 |
| Repayment of debt |  | — | |  | (721,673) |
| Debt issuance costs |  | (3,570) |  |  | (4,768) |
| Proceeds from issuance of common stock under share-based awards |  | 2,834 |  |  | 921 |
| Minimum tax withholding paid on behalf of employees for share-based awards |  | (4,636) |  |  | (5,473) |
| Share repurchases |  | (148,278) |  |  | (102,001) |
| Net cash (used in) provided by financing activities |  | (153,650) |  |  | 17,006 |
| Net (decrease) increase in cash and cash equivalents |  | (64,812) |  |  | 145,534 |
| Cash and cash equivalents–beginning of period |  | 621,295 |  |  | 329,011 |
| Cash and cash equivalents–end of period | $ | 556,483 |  | $ | 474,545 |
|  |  |  |  |  |  |

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

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**TRI POINTE HOMES, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

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

**Organization**

Effective January 15, 2021, the Company changed its corporate name from “TRI Pointe Group, Inc.” to “Tri Pointe Homes, Inc.” As part of this name change, the Company consolidated its six regional homebuilding brands into one unified name—Tri Pointe Homes. For further details on the impact to our reporting segments, see Note 2, Segment Information.

Tri Pointe is engaged in the design, construction and sale of innovative single-family attached and detached homes across ten states, including Arizona, California, Colorado, Maryland, Nevada, North Carolina, South Carolina, Texas, Virginia and Washington, and the District of Columbia.

**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, 2020. 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 six months ended June 30, 2021 are not necessarily indicative of the results to be expected for the full year ending December 31, 2021 due to seasonal variations and other factors, such as the effects of the novel coronavirus (“COVID-19”) and its potential impacts on our future results.

The consolidated financial statements include the accounts of Tri Pointe Homes and its wholly owned subsidiaries, as well as other entities in which Tri Pointe Homes has a controlling interest and variable interest entities (“VIEs”) in which Tri Pointe Homes is the primary beneficiary. The noncontrolling interests as of June 30, 2021 and December 31, 2020 represent the outside owners’ interests in the Company’s consolidated entities. All significant intercompany accounts have been eliminated upon consolidation.

Unless the context otherwise requires, the terms “Tri Pointe”, “the Company”, “we”, “us”, and “our” used herein refer to Tri Pointe Homes, Inc., a Delaware corporation, and its consolidated subsidiaries.

**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.

**Revenue Recognition**

We recognize revenue in accordance with Accounting Standards Topic 606 (“ASC 606”), *Revenue from Contracts with Customers*. Under ASC 606, we apply the following steps to determine the timing and amount of revenue to recognize: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation.

***Home sales revenue***

We generate the majority of our total revenues from home sales, which consists of our core business operation of building and delivering completed homes to homebuyers. Home sales revenue and related profit is generally recognized when title to and possession of the home are transferred to the homebuyer at the home closing date. Our performance obligation to deliver the agreed-upon home is generally satisfied in less than one year from the original contract date. Included in home sales

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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 are immaterial.

***Land and lot sales revenue***

We generate revenue from the sale of land and lots to third-parties in the ordinary course of business and these transactions are considered to meet 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 homebuilding other operations revenue relates to a ground lease included in our West segment. We are responsible for making lease payments to the landowner, and we collect sublease payments from the buyers of the buildings. This ground lease is accounted for in accordance with ASC Topic 842, *Leases*. We do not recognize a material profit on this ground lease.

***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 and escrow 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. We record a percentage of income earned by Tri Pointe Connect based on our ownership percentage in this joint venture. Tri Pointe Connect activity appears as equity in income of unconsolidated entities under the Financial Services section of our consolidated statements of operations.

*Title and escrow services operations*

Tri Pointe Assurance provides title examinations for our homebuyers in the Carolinas and Colorado and both title examinations and escrow services for our homebuyers in Arizona, Texas, Maryland, Nevada 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. Revenue from our title and escrow services operations is fully recognized at the time of the consummation of the home sales transaction, at which time no further performance obligations are left to be satisfied. 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. 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.

**Restructuring Charges**

In May 2020, due to the existing and anticipated future impact of the COVID-19 pandemic on our business, we implemented a workforce reduction plan. As a result of the workforce reduction plan, during the three months ended June 30, 2020 we incurred $5.5 million of pre-tax restructuring charges consisting of severance and related costs, all of which had been paid as of December 31, 2020.

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**Adoption of New Accounting Standards**

In December 2019, the FASB issued Accounting Standards Update (“ASU”) No. 2019-12, Income Taxes (Topic 740): *Simplifying the Accounting for* *Income Taxes* (“ASU 2019-12”), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptionsto the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. We adopted ASU 2019-12 on January 1, 2021 and our adoption did not have a material impact on our consolidated financial statements.

**2.** **Segment Information**

We operate two principal businesses: homebuilding and financial services.

Effective January 15, 2021, we consolidated our six regional homebuilding brands into one unified name, Tri Pointe Homes, under which we continue to 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 and in consideration of the geographical layout of our homebuilding markets, we have identified three homebuilding operating and reporting segments, and as a result of such change, beginning in the quarter ended March 31, 2021, our homebuilding segments are reported under the following hierarchy:

West region: Arizona, California, Nevada and Washington

Central region: Colorado and Texas

East region: District of Columbia, Maryland, North Carolina, South Carolina and Virginia

Prior to the consolidation of our six regional homebuilding brands into one unified name, Tri Pointe Homes, our homebuilding operations were 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, Colorado and the Carolinas; and Winchester Homes, consisting of operations in Maryland, Virginia and the District of Columbia. The realignment of our reporting segments did not have any impact on our historical consolidated results of operations and we have restated prior period segment information in this report to conform to the new segment reporting structure.

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 and escrow 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. All of the expenses incurred by Corporate are allocated to each of the homebuilding reporting segments based on their respective percentage of revenues.

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

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June 30,** | | | | | |  | **Six Months Ended June 30,** | | | | | | |
|  |  | **2021** |  |  | **2020** |  |  |  | **2021** |  |  |  |  | **2020** |  |
| Revenues |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| West | $ | 784,952 |  | $ | 540,027 | |  | $ | 1,324,998 | | |  | $ | 956,570 |  |
| Central |  | 149,620 |  |  | 153,957 | |  |  | 270,738 | | |  |  | 286,433 |  |
| East |  | 80,811 |  |  | 73,826 | |  |  | 138,508 | | |  |  | 120,263 |  |
| Total homebuilding revenues |  | 1,015,383 |  |  | 767,810 | |  |  | 1,734,244 | | |  |  | 1,363,266 |  |
| Financial services |  | 2,681 |  |  | 2,296 | |  |  | 4,786 | | |  |  | 3,890 |  |
| Total | $ | 1,018,064 |  | $ | 770,106 | |  | $ | 1,739,030 | | |  | $ | 1,367,156 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Income before taxes |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| West | $ | 130,254 |  | $ | 61,363 | |  | $ | 209,831 | | |  | $ | 97,217 |  |
| Central |  | 15,853 |  |  | 7,504 | |  |  | 25,550 | | |  |  | 12,069 |  |
| East |  | 5,882 |  |  | 1,861 | |  |  | 7,622 | | |  |  | 1,075 |  |
| Total homebuilding income before income taxes |  | 151,989 |  |  | 70,728 | |  |  | 243,003 | | |  |  | 110,361 |  |
| Financial services |  | 5,145 |  |  | 3,943 | |  |  | 8,534 | | |  |  | 6,014 |  |
| Total | $ | 157,134 |  | $ | 74,671 | |  | $ | 251,537 | | |  | $ | 116,375 |  |
|  |  | |  |  | |  |  |  | |  | |  |  |  |  |
| Total real estate inventories and total assets for each of our reportable segments, as of the date indicated, were as follows (in thousands): | | | | | | | | | | | | | |  |  |
|  |  |  |  |  |  |  |  | **June 30, 2021** | | |  |  | **December 31, 2020** | | |
| Real estate inventories |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| West |  |  |  |  | $ | |  |  | 2,309,478 |  | $ | |  | 2,296,013 |  |
| Central |  |  |  |  |  |  |  |  | 485,744 |  |  |  |  | 386,204 |  |
| East |  |  |  |  |  |  |  |  | 290,360 |  |  |  |  | 227,925 |  |
| Total |  |  |  |  | $ | |  |  | 3,085,582 |  | $ | |  | 2,910,142 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total assets(1) |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| West |  |  |  |  | $ | |  |  | 2,581,096 |  | $ | |  | 2,556,961 |  |
| Central |  |  |  |  |  |  |  |  | 572,420 |  |  |  |  | 468,699 |  |
| East |  |  |  |  |  |  |  |  | 344,144 |  |  |  |  | 284,437 |  |
| Corporate |  |  |  |  |  |  |  |  | 621,710 |  |  |  |  | 672,536 |  |
| Total homebuilding assets |  |  |  |  |  |  |  |  | 4,119,370 |  |  |  |  | 3,982,633 |  |
| Financial services |  |  |  |  |  |  |  |  | 40,787 |  |  |  |  | 39,347 |  |
| Total |  |  |  |  | $ | |  |  | 4,160,157 |  | $ | |  | 4,021,980 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

* 1. Total assets as of June 30, 2021 and December 31, 2020 includes $139.3 million of goodwill, with $125.4 million included in the West segment, $8.3 million included in the Central segment and $5.6 million included in the East segment. Total Corporate assets as of June 30, 2021 and December 31, 2020 includes our Tri Pointe Homes trade name, which was historically included in our Tri Pointe Homes reportable segment. For further details on goodwill and our intangible assets, see Note 8, *Goodwill and Other Intangible Assets*.

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):

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June 30,** | | | | | |  | **Six Months Ended June 30,** | | | | | | | |  |
|  |  | **2021** |  |  | **2020** | |  |  | **2021** | |  |  |  |  | **2020** |  |  |
| Numerator: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income | $ | 117,869 |  | $ | 56,528 | |  | $ | 188,671 | | | $ | | | 88,411 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Denominator: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic weighted-average shares outstanding |  | 116,824,108 |  |  | 130,292,563 | |  |  | 118,082,691 | | |  |  |  | 132,326,856 |  |  |
| Effect of dilutive shares: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Stock options and unvested restricted stock units |  | 945,976 |  |  | 214,004 | |  |  | 838,649 | | |  |  |  | 436,919 |  |  |
| Diluted weighted-average shares outstanding |  | 117,770,084 |  |  | 130,506,567 | |  |  | 118,921,340 | | |  |  |  | 132,763,775 |  |  |
| Earnings per share |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic | $ | 1.01 |  | $ | 0.43 | |  | $ |  |  | 1.60 |  |  | $ | 0.67 |  |  |
| Diluted |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| $ | 1.00 |  | $ | 0.43 | |  | $ |  |  | 1.59 | $ | | | 0.67 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Antidilutive stock options and unvested restricted stock units not included |  | 1,805,413 |  |  | 3,090,298 | |  |  | 2,101,688 | | |  |  |  | 2,992,479 |  |  |
| in diluted earnings per share |  |  |  |  |  |  |  |  |  |  |
| **4. Receivables** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Receivables consisted of the following (in thousands): |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  | **June 30, 2021** | | | |  |  | **December 31, 2020** | | | |  |  |
| Escrow proceeds and other accounts receivable, net |  |  |  |  | $ | |  |  | 44,829 |  | $ |  |  |  | 16,642 |  |  |
| Warranty insurance receivable (Note 13) |  |  |  |  |  |  |  |  | 46,519 |  |  |  |  |  | 46,909 |  |  |
| Total receivables |  |  |  |  | $ | |  |  | 91,348 |  | $ |  |  |  | 63,551 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Receivables are evaluated for collectability and allowances for potential losses are established or maintained on applicable receivables based on an expected credit loss approach. Receivables were net of allowances for doubtful accounts of $476,000 and $39,000 as of June 30, 2021 and December 31, 2020, respectively.

**5.** **Real Estate Inventories**

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **June 30, 2021** | |  | **December 31, 2020** |
| Real estate inventories owned: |  |  |  |  |  |
| Homes completed or under construction | $ | 1,331,086 |  | $ | 1,006,980 |
| Land under development |  | 1,157,181 |  |  | 1,328,481 |
| Land held for future development |  | 200,214 |  |  | 212,939 |
| Model homes |  | 230,429 |  |  | 241,345 |
| Total real estate inventories owned |  | 2,918,910 |  |  | 2,789,745 |
| Real estate inventories not owned: |  |  |  |  |  |
| Land purchase and land option deposits |  | 166,672 |  |  | 120,397 |
| Total real estate inventories not owned |  | 166,672 |  |  | 120,397 |
| Total real estate inventories | $ | 3,085,582 |  | $ | 2,910,142 |
|  |  |  |  |  |  |

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.

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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*.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June 30,** | | | | |  | **Six Months Ended June 30,** | | | |  |
|  |  | **2021** |  |  | **2020** |  |  | **2021** |  |  | **2020** |  |
| Interest incurred | $ | 22,558 |  | $ | 21,828 |  | $ | 43,737 |  | $ | 42,607 |  |
| Interest capitalized |  | (22,558) |  |  | (21,828) |  |  | (43,737) |  |  | (42,607) |  |
| Interest expensed | $ | — | | $ | — | | $ | — | | $ | — |  |
| Capitalized interest in beginning inventory |  |  |  |  |  |  |  |  |  |  |  |  |
| $ | 182,729 |  | $ | 196,313 |  | $ | 182,228 |  | $ | 192,356 |  |
| Interest capitalized as a cost of inventory |  | 22,558 |  |  | 21,828 |  |  | 43,737 |  |  | 42,607 |  |
| Interest previously capitalized as a cost of |  | (31,124) |  |  | (21,806) |  |  | (51,802) |  |  | (38,628) |  |
| inventory, included in cost of sales |  |  |  |  |  |  |  |  |
| Capitalized interest in ending inventory | $ | 174,163 |  | $ | 196,335 |  | $ | 174,163 |  | $ | 196,335 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

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 June 30,** | | | | | |  | **Six Months Ended June 30,** | | | |
|  | **2021** |  |  |  | **2020** |  |  | **2021** |  |  | **2020** |
| Real estate inventory impairments | $ | — | | $ | — | | $ | — | | $ | — |
| Land and lot option abandonments and pre-acquisition charges |  | 232 |  |  | 1,380 |  |  | 445 |  |  | 1,729 |
| Total | $ | 232 |  | $ | 1,380 |  | $ | 445 |  | $ | 1,729 |
|  |  |  |  |  |  |  |  |  |  |  |  |

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.

**6.** **Investments in Unconsolidated Entities**

As of June 30, 2021, we held equity investments in nine active homebuilding partnerships or limited liability companies and one financial services limited liability company. Our participation in these entities may be as a developer, a builder, or an investment partner. Our ownership percentage varies from 7% to 65%, depending on the investment, with no controlling interest held in any of these investments.

**Unconsolidated Financial Information**

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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):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **June 30, 2021** | | | |  |  | **December 31, 2020** | | | | |  |
| Assets |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash |  |  |  | $ |  | 25,640 | | | $ | | |  |  | 15,430 |  |  |
| Receivables |  |  |  |  |  | 2,606 | | |  |  |  |  |  | 3,820 |  |  |
| Real estate inventories |  |  |  |  |  | 281,721 | | |  |  |  |  |  | 235,437 |  |  |
| Other assets |  |  |  |  |  | 699 | | |  |  |  |  |  | 546 |  |  |
| Total assets |  |  |  | $ |  | 310,666 | | | $ | | |  |  | 255,233 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Liabilities and equity |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Accounts payable and other liabilities |  |  |  | $ |  | 60,839 | | | $ | | |  |  | 43,534 |  |  |
| Company’s equity |  |  |  |  |  | 74,051 | | |  |  |  |  |  | 75,056 |  |  |
| Outside interests’ equity |  |  |  |  |  | 175,776 | | |  |  |  |  |  | 136,643 |  |  |
| Total liabilities and equity |  |  |  | $ |  | 310,666 | | | $ | | |  |  | 255,233 |  |  |
| Results of operations from unconsolidated entities (in thousands): |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **Three Months Ended June 30,** | | | |  |  | **Six Months Ended June 30,** | | | | | | | |  |
|  |  | **2021** |  |  | **2020** |  |  |  | **2021** | | |  |  | **2020** |  |  |
| Net sales | $ | 12,588 |  | $ | 8,726 | $ | | | 20,397 | | |  | $ | 14,696 |  |  |
| Other operating expense |  | (6,973) |  |  | (4,400) | |  |  | (10,821) | | |  |  | (8,156) | |  |
| Other loss, net |  | (4) |  |  | (1) | |  |  | (4) | | |  |  | (4) | |  |
| Net income | $ | 5,611 |  | $ | 4,325 | $ | | | 9,572 | | |  | $ | 6,536 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Company’s equity in income of unconsolidated entities | $ | 3,933 |  | $ | 2,907 | $ | | | 6,611 | | |  | $ | 4,449 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**7.** **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 landowner 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.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **June 30, 2021** | |  |  |  |  |  |  | **December 31, 2020** | | |  |  |  |
|  |  |  |  |  | **Remaining** | |  | **Consolidated** |  |  |  |  |  | **Remaining** | |  | **Consolidated** |  |
|  |  | **Deposits** |  |  | **Purchase** | |  | **Inventory** | |  | **Deposits** |  |  | **Purchase** | |  | **Inventory** |  |
|  |  |  | **Price** |  |  | **Held by VIEs** |  |  |  | **Price** |  |  | **Held by VIEs** |  |
| Consolidated VIEs | $ | — | | $ | — | | $ | — | | $ | — | | $ | — | | $ | — |  |
| Unconsolidated VIEs |  | 133,105 |  |  | 784,069 |  |  | N/A | |  | 81,723 |  |  | 599,025 |  |  | N/A |  |
| Other land option agreements |  | 33,567 |  |  | 341,753 |  |  | N/A |  |  | 38,674 |  |  | 336,326 |  |  | N/A |  |
| Total | $ | 166,672 |  | $ | 1,125,822 |  | $ | — | | $ | 120,397 |  | $ | 935,351 |  | $ | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Unconsolidated VIEs represent land option agreements that were not consolidated because we were not the primary beneficiary. Other land option agreements were not with 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 $11.0 million and $9.5 million as of June 30, 2021 and December 31, 2020, respectively. These pre-acquisition costs are included in real estate inventories as land under development on our consolidated balance sheets.

**8.** **Goodwill and Other Intangible Assets**

As of June 30, 2021 and December 31, 2020, $139.3 million of goodwill is included in goodwill and other intangible assets, net on each of the consolidated balance sheets.

We have one intangible asset as of June 30, 2021, comprised of a Tri Pointe Homes trade name resulting from the acquisition of WRECO in 2014, which has an indefinite useful life.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **June 30, 2021** | |  |  |  |  |  |  | **December 31, 2020** | | |  |  |  |
|  |  | **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 |  |  | (10,679) |  |  | 17,300 |  |  | 27,979 |  |  | (8,754) |  |  | 19,225 |  |
| Total | $ | 167,283 |  | $ | (10,679) |  | $ | 156,604 |  | $ | 167,283 |  | $ | (8,754) |  | $ | 158,529 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

In October 2020, in conjunction with the announcement of our move to a single brand, Tri Pointe Homes, we modified the useful life of the former Maracay trade name which expired in June 2021. The intangible asset related to the Maracay trade name was fully amortized during the three months ended June 30, 2021 compared to an ending balance of $1.9 million as of December 31, 2020. Amortization expense related to this intangible asset was $963,000 and $134,000 for the three-month periods ended June 30, 2021 and 2020, respectively and $1.9 million and $267,000 for the six-month periods ended June 30, 2021 and 2020, 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 and goodwill are evaluated for impairment on an annual basis or more frequently if indicators of impairment exist.

**9.** **Other Assets**

Other assets consisted of the following (in thousands):

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|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **June 30, 2021** | |  | **December 31, 2020** |  |
| Prepaid expenses | $ | 9,115 |  | $ | 14,984 |  |
| Refundable fees and other deposits |  | 20,324 |  |  | 22,029 |  |
| Development rights, held for future use or sale |  | 1,193 |  |  | 1,528 |  |
| Deferred loan costs—loans payable |  | 6,013 |  |  | 3,073 |  |
| Operating properties and equipment, net |  | 49,492 |  |  | 52,494 |  |
| Lease right-of-use assets |  | 48,871 |  |  | 48,798 |  |
| Income tax receivable |  | 13,693 |  |  | — |  |
| Other |  | 3,000 |  |  | 2,976 |  |
| Total | $ | 151,701 |  | $ | 145,882 |  |
| **10. Accrued Expenses and Other Liabilities** |  |  |  |  |  |  |
|  |  |  |  |  |  |
| Accrued expenses and other liabilities consisted of the following (in thousands): |  |  |  |  |  |  |
|  |  | **June 30, 2021** | |  | **December 31, 2020** |  |
| Accrued payroll and related costs | $ | 39,246 |  | $ | 48,893 |  |
| Warranty reserves (Note 13) |  | 93,522 |  |  | 94,475 |  |
| Estimated cost for completion of real estate inventories |  | 102,976 |  |  | 93,292 |  |
| Customer deposits |  | 61,096 |  |  | 43,602 |  |
| Income tax liability to Weyerhaeuser |  | 307 |  |  | 240 |  |
| Accrued income taxes payable |  | 17,336 |  |  | 13,329 |  |
| Accrued interest |  | 5,512 |  |  | 4,655 |  |
| Other tax liability |  | 2,478 |  |  | 2,180 |  |
| Lease liabilities |  | 52,900 |  |  | 53,239 |  |
| Other |  | 19,765 |  |  | 12,835 |  |
| Total | $ | 395,138 |  | $ | 366,740 |  |
|  |  |  |  |  |  |  |

1. **Senior Notes and Loans Payable Senior Notes**

The Company’s outstanding senior notes (together, the “Senior Notes”) consisted of the following (in thousands):

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **June 30, 2021** | |  | **December 31, 20** |
| 5.875% | Senior Notes due June 15, 2024 | $ | 450,000 |  | $ | 450 |
| 5.250% | Senior Notes due June 1, 2027 |  | 300,000 |  |  | 300 |
| 5.700% | Senior Notes due June 15, 2028 |  | 350,000 |  |  | 350 |
| Discount and deferred loan costs | |  | (14,405) |  |  | (15 |
| Total |  | $ | 1,085,595 |  | $ | 1,084 |
|  |  |  |  |  |  |  |

In June 2020, Tri Pointe issued $350 million aggregate principal amount of 5.700% Senior Notes due 2028 (the “2028 Notes”) at 100.00% of their aggregate principal amount. Net proceeds of this issuance were $345.2 million, after debt issuance costs and discounts. The 2028 Notes mature on June 15, 2028 and interest is paid semiannually in arrears on June 15 and December 15 of each year until maturity.

In June 2017, Tri Pointe 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.

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Tri Pointe and its wholly owned subsidiary Tri Pointe Homes Holdings, Inc. are co-issuers of the $450 million aggregate principal amount 5.875% Senior Notes due 2024 (the “2024 Notes”). The 2024 Notes were issued at 98.15% of their aggregate principal amount. The net proceeds from the offering of the 2024 Notes was $429.0 million, after debt issuance costs and discounts. The 2024 Notes mature on June 15, 2024, with interest payable semiannually in arrears on June 15 and December 15 of each year until maturity.

As of June 30, 2021, there were $11.4 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 $3.2 million as of both June 30, 2021 and December 31, 2020.

**Loans Payable**

The Company’s outstanding loans payable consisted of the following (in thousands):

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **June 30, 2021** |  |  |  | **December 31, 2020** |
| Term loan facility | $ | 250,000 |  | $ | 250,000 |
| Seller financed loans |  | 8,979 |  |  | 8,979 |
| Total | $ | 258,979 |  | $ | 258,979 |
|  |  |  |  |  |  |

On June 10, 2021, we entered into a Second Modification Agreement (the “Modification”) to our Second Amended and Restated Credit Agreement dated

as of March 29, 2019. The Modification, among other things, (i) increases the maximum amount of the revolving credit facility (the “Revolving Facility”) under

the Credit Agreement from $600.0 million to $650.0 million and (ii) extends the maturity date of both the Revolving Facility and term loan facility (the “Term

Facility”) under the Credit Agreement to June 10, 2026; provided that the maturity date for $45.0 million of commitments under the Revolving Facility and

$30.0 million of loans under the Term Facility, respectively, were not extended and remain scheduled to mature on March 29, 2023. We may increase the Credit

Facility to not more than $1 billion in the aggregate, at our request, upon satisfaction of specified conditions. The Revolving Facility contains a sublimit of $100

million for letters of credit. We may borrow under the Revolving Facility in the ordinary course of business to repay senior notes and fund our operations,

including our land acquisition, land development and homebuilding activities. Borrowings under the Revolving Facility will be governed by, among other

things, a borrowing base. Interest rates on borrowings under the Revolving 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 1.90%, depending on the Company’s leverage ratio. Interest rates on borrowings under the Term Facility will

be based on either a daily Eurocurrency base rate or a Eurocurrency rate, in either case, plus a spread ranging from 1.10% to 1.85%, depending on the

Company’s leverage ratio.

As of June 30, 2021, we had no outstanding debt under the Revolving Facility and there was $593.1 million of availability after considering the borrowing base provisions and outstanding letters of credit. As of June 30, 2021, we had $250 million outstanding debt under the Term Facility with an interest rate of 1.19%. As of June 30, 2021, there were $6.0 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 remaining term of the Credit Facility. Accrued interest, including loan commitment fees, related to the Credit Facility was $528,000 and $617,000 as of June 30, 2021 and December 31, 2020, respectively.

At June 30, 2021 and December 31, 2020, we had outstanding letters of credit of $47.9 million and $64.1 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 June 30, 2021 and 2020, the Company incurred interest of $22.6 million and $21.8 million, respectively, related to all debt during the period. Included in interest incurred are amortization of deferred financing and Senior Note discount costs of $1.1 million and $1.2 million for the three months ended June 30, 2021 and 2020, respectively. During the six months ended June 30, 2021 and 2020, the Company incurred interest of $43.7 million and $42.6 million, respectively, related to all debt during the period and amortization of deferred financing and Senior Note discount costs of $2.2 million and $2.4 million for the six months ended June 30, 2021 and 2020, respectively. Accrued interest related to all outstanding debt at June 30, 2021 and December 31, 2020 was $5.5 million and $4.7 million, respectively.

**Covenant Requirements**

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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 those relating to consolidated tangible net worth, leverage, liquidity or interest coverage, and a spec unit inventory test. The Credit Facility also requires that at least 97.0% of consolidated tangible net worth must be attributable to the Company and its guarantor subsidiaries, subject to certain grace periods.

The Company was in compliance with all applicable financial covenants as of June 30, 2021 and December 31, 2020.

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

**Fair Value of Financial Instruments**

A summary of assets and liabilities at June 30, 2021 and December 31, 2020, related to our financial instruments, measured at fair value on a recurring basis, is set forth below (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **June 30, 2021** | | | | |  | **December 31, 2020** | | | |
|  | **Hierarchy** |  |  | **Book Value** |  |  | **Fair Value** |  |  | **Book Value** |  |  | **Fair Value** |
| Senior Notes(1) | Level 2 | | $ | 1,096,953 |  | $ | 1,220,300 |  | $ | 1,096,494 |  | $ | 1,207,665 |
| Term loan(2) | Level 2 | | $ | 250,000 |  | $ | 250,000 |  | $ | 250,000 |  | $ | 250,000 |
| Seller financed loans(3) | Level 2 | | $ | 8,979 |  | $ | 8,979 |  | $ | 8,979 |  | $ | 8,979 |

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

1. The book value of the Senior Notes is net of discounts, excluding deferred loan costs of $11.4 million and $12.5 million as of June 30, 2021 and December 31, 2020, respectively. The estimated fair value of the Senior Notes at June 30, 2021 and December 31, 2020 is based on quoted market prices.
2. The estimated fair value of the Term Loan Facility as of June 30, 2021 and December 31, 2020 approximated book value due to the variable interest rate terms of this loan.
3. The estimated fair value of our seller financed loans as of June 30, 2021 and December 31, 2020 approximated book value due to the short term nature of these loans, both of which are scheduled to mature in 2021.

At June 30, 2021 and December 31, 2020, the carrying value of cash and cash equivalents and receivables approximated fair value due to their short-term nature and variable interest rate terms.

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**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):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Six Months Ended June 30, 2021** | | |  |  |  |  | **Year Ended December 31, 2020** | | |  |  |
|  |  |  |  | **Impairment** | | **Fair Value** |  |  |  |  | **Impairment** | | **Fair Value** | |  |
|  |  | **Hierarchy** |  | **Net of** |  |  |  |  | **Net of** |  |  |
|  |  |  | **Charge** |  | **Impairment** |  |  |  |  | **Charge** |  | **Impairment** |  |  |
|  | Real estate | Level 3 | $ | — | | $ | — | | | $ | 1,460 |  | $ | 2, |  |
|  | inventories(1) |  |  |
| \_\_\_\_\_\_\_\_\_\_ | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (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, |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. **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 zero and $1.3 million of legal reserves as of June 30, 2021 and December 31, 2020, respectively.

***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. Our warranty reserve may also include an estimate of future fit and finish warranty claims to the extent not contemplated in the actuarial analysis. 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

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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 $46.5 million and $46.9 million as of June 30, 2021 and December 31, 2020, respectively. Warranty insurance receivables are recorded in receivables on the accompanying consolidated balance sheets.

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

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June 30,** | | | | |  | **Six Months Ended June 30,** | | | |
|  |  | **2021** |  |  | **2020** |  |  | **2021** |  |  | **2020** |
| Warranty reserves, beginning of period | $ | 94,793 |  | $ | 76,487 |  | $ | 94,475 |  | $ | 76,607 |
| Warranty reserves accrued |  | 5,779 |  |  | 6,988 |  |  | 12,293 |  |  | 12,144 |
| Warranty expenditures |  | (7,050) |  |  | (4,285) |  |  | (13,246) |  |  | (9,561) |
| Warranty reserves, end of period | $ | 93,522 |  | $ | 79,190 |  | $ | 93,522 |  | $ | 79,190 |
|  |  |  |  |  |  |  |  |  |  |  |  |

***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 June 30, 2021 and December 31, 2020, the Company had outstanding surety bonds totaling $650.5 million and

$615.4 million, respectively. As of June 30, 2021 and December 31, 2020, our estimated cost to complete obligations related to these surety bonds was $422.4

million and $323.2 million, respectively.

**Lease Obligations**

Under ASC 842 we recognize a right-of-use lease asset and a lease liability for contracts deemed to contain a lease at the inception of the contract. Our lease population is fully comprised of operating leases, which are now recorded at the net present value of future lease obligations existing at each balance sheet date. At the inception of a lease, or if a lease is subsequently modified, we determine whether the lease is an operating or financing lease. Key estimates involved with ASC 842 include the discount rate used to measure our future lease obligations and the lease term, where considerations include renewal options and intent to renew. Lease right-of-use assets are included in other assets and lease liabilities are included in accrued expenses and other liabilities on our consolidated balance sheet.

***Operating Leases***

We lease certain property and equipment under non-cancelable operating leases. Office leases are for terms of up to ten years and generally provide renewal options. In most cases, we expect that, in the normal course of business, leases that expire will be renewed or replaced by other leases. Equipment leases are typically for terms of three to four years.

***Ground Leases***

In 1987, we obtained two 55-year ground leases of commercial property that provided for three renewal options of ten years each and one 45-year renewal option. We exercised the three ten-year extensions on one of these ground leases to extend the lease through 2071. The commercial buildings on these properties have been sold and the ground leases have been sublet to the buyers.

For one of these leases, we are responsible for making lease payments to the landowner, and we collect sublease payments from the buyers of the buildings. This ground lease has been subleased through 2041 to the buyers of the commercial buildings. For the second lease, the buyers of the buildings are responsible for making lease payments directly to the landowner, however, we have guaranteed the performance of the buyers/lessees. See below for additional information on leases (dollars in thousands):

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Three Months Ended** | |  | | **Three Months Ended** | | |  |  |  | **Six Months Ended** | |  | **Six Months** | | |  |
|  |  |  |  |  | **June 30, 2021** |  |  |  | **June 30, 2020** | |  |  |  | **June 30, 2021** | | | | **June 30, 2020** | | |  |
|  |  | **Lease Cost** |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Operating lease cost (included in SG&A | | | $ | 2,443 |  |  | $ |  | 2,456 |  |  | $ | | 4,924 |  | $ | 4 | |  |
|  | expense) | | | |  |  |  |  |  |  |  |
|  |  | Ground lease cost (included in other operations | | |  | 645 |  |  |  |  | 624 |  |  |  |  | 1,269 |  |  | 1 | |  |
|  | expense) | | | |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Sublease income, operating leases | | |  | — | | |  |  | — | | |  |  | — | |  |  |  |  |
|  |  | Sublease income, ground leases (included in | | |  | (655) |  |  |  |  | (648) |  |  |  |  | (1,288) |  |  | (1 | |  |
|  | other operations revenue) | | | |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Net lease cost | | | | $ | 2,433 |  |  | $ |  | 2,432 |  |  | $ | | 4,905 |  | $ | 4 | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **Other information** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Cash paid for amounts included in the | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | measurement of lease liabilities: | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Operating lease cash flows (included in | | | $ | 1,838 |  |  | $ |  | 2,220 |  |  | $ | | 4,626 |  | $ | 4 | |  |
|  | operating cash flows) | | | |  |  |  |  |  |  |  |
|  |  | Ground lease cash flows (included in operating | | | $ | 634 |  |  | $ |  | 624 |  |  | $ | | 1,269 |  | $ | 1 | |  |
|  | cash flows) | | | |  |  |  |  |  |  |  |
|  | Right-of-use assets obtained in exchange for new | | | | $ | — | | | $ |  | 1,135 |  |  | $ | | 3,006 |  | $ | 1 | |  |
|  | operating lease liabilities | | | |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  | **June 30, 2021** | | | | | **December 31, 2020** | | | | |  |
| Weighted-average discount rate: | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Operating leases | | | | |  |  |  |  |  |  |  |  |  | 5.4 % | |  |  |  | 5.7 % |  |  |
| Ground leases | | | | |  |  |  |  |  |  |  |  |  | 10.2 % | |  |  |  | 10.2 % |  |  |
| Weighted-average remaining lease term (in years): | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Operating leases | | | | |  |  |  |  |  |  |  |  |  | 6.0 | |  |  |  | 5.5 |  |  |
| Ground leases | | | | |  |  |  |  |  |  |  |  |  | 46.6 | |  |  |  | 47.0 |  |  |
| The future minimum lease payments under our operating leases are as follows (in thousands): | | | | | | | | | | |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  | **Property, Equipment and Other** | | | | |  |  | **Ground Leases (1)** | | |  |  |  |
|  |  |  |  |  |  |  |  |  | **Leases** | |  |  |  |  |  |  |  |  |
| Remaining in 2021 | | | | |  |  |  |  | $ |  | 4,687 | | | $ | |  |  |  | 1,561 |  |  |
| 2022 |  |  |  |  |  |  |  |  |  |  | 6,255 | | |  |  |  |  |  | 3,122 |  |  |
| 2023 |  |  |  |  |  |  |  |  |  |  | 5,260 | | |  |  |  |  |  | 3,122 |  |  |
| 2024 |  |  |  |  |  |  |  |  |  |  | 3,522 | | |  |  |  |  |  | 3,122 |  |  |
| 2025 |  |  |  |  |  |  |  |  |  |  | 2,376 | | |  |  |  |  |  | 3,122 |  |  |
| Thereafter | | | | |  |  |  |  |  |  | 7,608 | | |  |  |  |  |  | 81,808 |  |  |
| Total lease payments | | | | |  |  |  |  | $ |  | 29,708 | | | $ | |  |  |  | 95,857 |  |  |
| Less: Interest | | | | |  |  |  |  |  |  | 4,563 | | |  |  |  |  |  | 68,101 |  |  |
| Present value of operating lease liabilities | | | | |  |  |  |  | $ |  | 25,145 | | | $ | |  |  |  | 27,756 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

* 1. Ground leases are fully subleased through 2041, representing $63.5 million of the $95.9 million future ground lease obligations.

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

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appreciation rights, bonus stock, restricted stock, restricted stock units (“RSUs”) 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 June 30, 2021, there were 4,709,017 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 June 30,** | | | |  |  |  | **Six Months Ended June 30,** | | | |
|  | **2021** |  |  | **2020** |  |  |  | **2021** |  |  | **2020** |
| Total stock-based compensation | $ | 4,506 |  | $ | 3,786 |  | $ | 8,162 |  | $ | 7,411 |
|  |  |  |  |  |  |  |  |  |  |  |  |

Stock-based compensation is charged to general and administrative expense on the accompanying consolidated statements of operations. As of June 30, 2021, total unrecognized stock-based compensation related to all stock-based awards was $29.6 million and the weighted average term over which the expense was expected to be recognized was 2.0 years.

**Summary of Stock Option Activity**

The following table presents a summary of stock option awards for the six months ended June 30, 2021:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Weighted** | | **Weighted** | |  | **Aggregate** |  |
|  |  |  |  | **Average** | | **Average** | |  |  |
|  |  |  |  | **Exercise** | | **Remaining** | |  | **Intrinsic** |  |
|  | **Options** |  |  | **Price** | | **Contractual** | |  | **Value** |  |
|  |  |  | **Per Share** |  | **Life** |  |  | **(in thousands)** |  |
| Options outstanding at December 31, 2020 | 650,770 | $ | | 15.78 |  | 2.5 |  | $ | 1,155 |  |
| Granted | — |  |  | — | | — | |  | — |  |
| Exercised | (196,049) | $ | | 15.90 |  | — | |  | — |  |
| Forfeited | — | $ | | — | | — | |  | — |  |
| Options outstanding at June 30, 2021 | 454,721 | $ | | 15.73 |  | 2.0 |  | $ | 2,566 |  |
| Options exercisable at June 30, 2021 |  | $ | | 15.73 |  | 2.0 |  | $ | 2,566 |  |
| 454,721 |  |  |  |

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 RSUs for the six months ended June 30, 2021:

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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, 2020 | 2,873,655 | $ | | 15.35 |  | $ | 50,404 |  |
| Granted | 1,559,588 | $ | | 18.79 |  |  | — |  |
| Vested | (716,879) | $ | | 15.26 |  |  | — |  |
| Forfeited | (321,809) | $ | | 12.84 |  |  | — |  |
| Nonvested RSUs at June 30, 2021 | 3,394,555 | $ | | 17.19 |  | $ | 72,542 |  |
|  |  |  |  |  |  |  |  |  |

RSUs that vested, as reflected in the table above, during the six months ended June 30, 2021 include previously granted time-based RSUs. RSUs that were forfeited, as reflected in the table above, during the six months ended June 30, 2021 include performance-based RSUs and time-based RSUs that were forfeited for no consideration.

On April 26, 2021, the Company granted an aggregate of 3,190 time-based RSUs to certain employees. The RSUs granted vest in equal installment annually beginning on April 26, 2022 over a three-year period. The fair value of each RSU granted on April 26, 2021 was measured using a price of $23.51 per share, which was the closing stock price on the date of grant. Each award will be expensed on a straight-line basis over the vesting period.

On April 26, 2021, the Company granted an aggregate of 32,960 time-based RSUs to the non-employee members of its board of directors. The RSUs granted to non-employee directors vest in their entirety on the day immediately prior to the Company’s 2022 annual meeting of stockholders. The fair value of each RSU granted on April 26, 2021 was measured using a price of $23.51 per share, which was the closing stock price on the date of grant. Each award will be expensed on a straight-line basis over the vesting period.

On February 22, 2021, the Company granted an aggregate of 625,000 time-based RSUs to certain employees and officers. The RSUs granted vest in equal installment annually on the anniversary of the grant date over a three-year period. The fair value of each RSU granted on February 22, 2021 was measured using a price of $18.26 per share per share, which was the closing stock price on the date of grant. Each award will be expensed on a straight-line basis over the vesting period.

On February 22, 2021, the Company granted an aggregate of 669,141 performance-based RSUs to the Company’s Chief Executive Officer, Chief Operating Officer and President, Chief Financial Officer, General Counsel, Chief Marketing Officer and Chief Human Resources Officer. These performance-based RSUs are allocated to two separate performance metrics, as follows: (i) 50% to homebuilding revenue, and (ii) 50% to pre-tax earnings. 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. Any award earned based on performance achieved may be increased or decreased by 25% based on the Company’s total stockholder return (“TSR'”) relative to its peer-group homebuilders. The performance period for these performance-based RSUs is January 1, 2021 to December 31, 2023. The fair value of these performance-based RSUs was determined to be $19.22 per share based on a Monte Carlo simulation. Each award will be expensed over the requisite service period.

On February 22, 2021, the Company granted an aggregate of 229,297 performance-based RSUs to the Company’s division presidents. These performance-based RSUs are allocated to two separate performance metrics, as follows: (i) 50% to homebuilding revenue of the applicable Company division, and (ii) 50% to pre-tax earnings of the applicable Company division. The vesting, if at all, of these performance-based RSUs may range from 0% to 100% and will be based on the applicable Company division’s percentage attainment of specified threshold, target and maximum performance goals. The performance period for these performance-based RSUs is January 1, 2021 to December 31, 2023. The fair value of these performance-based RSUs was measured using a price of $18.26, which was the closing stock price on the date of grant. Each award will be expensed over the requisite service period.

On July 28, 2020, the Company granted an aggregate of 5,632 time-based RSUs to certain employees. The RSUs granted vest in equal installment annually beginning on February 20, 2021 over a three-year period. The fair value of each RSU granted on July 28, 2020 was measured using a price of $16.79 per share, which was the closing stock price on the date of grant. Each award will be expensed on a straight-line basis over the vesting period.

On April 27, 2020, the Company granted an aggregate of 47,080 time-based RSUs to the non-employee members of its board of directors. The RSUs granted to non-employee directors vest in their entirety on the day immediately prior to the Company’s 2021 annual meeting of stockholders. The fair value of each RSU granted on April 27, 2020 was measured using a

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price of $10.62 per share, which was the closing stock price on the date of grant. Each award will be expensed on a straight-line basis over the vesting period.

On March 9, 2020 and February 20, 2020, the Company granted an aggregate of 17,692 and 639,395, respectively, time-based RSUs to certain employees and officers. The RSUs granted vest in equal installment annually on the anniversary of the grant date over a three-year period. The fair value of each RSU granted on March 9, 2020 and February 20, 2020 was measured using a price of $14.13 and $18.39 per share, respectively, which were the closing stock prices on the dates of grant. Each award will be expensed on a straight-line basis over the vesting period.

On February 20, 2020, the Company granted an aggregate of 547,166 performance-based RSUs to the Company’s Chief Executive Officer, Chief Operating Officer and President, Chief Financial Officer, General Counsel, Chief Marketing Officer and Chief Human Resources Officer. These performance-based RSUs are allocated to two separate performance metrics, as follows: (i) 50% to homebuilding revenue, and (ii) 50% to pre-tax earnings. 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. Any award earned based on performance achieved may be increased or decreased by 25% based on the Company’s TSR relative to its peer-group homebuilders. The performance period for these performance-based RSUs is January 1, 2020 to December 31, 2022. The fair value of these performance-based RSUs was determined to be $19.36 per share based on a Monte Carlo simulation. Each award will be expensed over the requisite service period.

On February 20, 2020, the Company granted an aggregate of 207,300 performance-based RSUs to the Company’s division presidents. These performance-based RSUs are allocated to two separate performance metrics, as follows: (i) 50% to homebuilding revenue of the applicable Company division, and (ii) 50% to pre-tax earnings of the applicable Company division. The vesting, if at all, of these performance-based RSUs may range from 0% to 100% and will be based on the applicable Company division’s percentage attainment of specified threshold, target and maximum performance goals. The performance period for these performance-based RSUs is January 1, 2020 to December 31, 2022. The fair value of these performance-based RSUs was measured using a price of $18.39, which was the closing stock price on the date of grant. Each award will be expensed over the requisite service 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.

**15.** **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 $44.4 million and $47.5 million as of June 30, 2021 and December 31, 2020. We had a valuation allowance related to those net deferred tax assets of $3.4 million as of both June 30, 2021 and December 31, 2020. 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 to Weyerhaeuser Company (“Weyerhaeuser”) related to a tax sharing agreement. As of June 30, 2021 and December 31, 2020, we had an income tax liability to Weyerhaeuser of $307,000 and $240,000, respectively. The income tax liability to Weyerhaeuser is recorded in accrued expenses and other liabilities on the accompanying consolidated balance sheets.

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Our provision for income taxes totaled $39.3 million and $18.1 million for the three months ended June 30, 2021 and 2020, respectively and $62.9 million and $28.0 million for the six months ended June 30, 2021 and 2020, respectively. The Company classifies any interest and penalties related to income taxes assessed by jurisdiction as part of income tax expense. The Company did not have any uncertain tax positions recorded as of June 30, 2021 and December 31, 2020. The Company has not been assessed interest or penalties by any major tax jurisdictions related to prior years.

**16.** **Related Party Transactions**

We had no related party transactions for the six months ended June 30, 2021 and 2020.

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

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Six Months Ended June 30,** | | | |
|  |  | **2021** |  |  | **2020** |
| Supplemental disclosure of cash flow information: |  |  |  |  |  |
| Interest paid (capitalized), net | $ | (3,061) |  | $ | 1,191 |
| Income taxes paid (refunded), net | $ | 69,308 |  | $ | (12) |
| Supplemental disclosures of noncash activities: |  |  |  |  |  |
| Amortization of senior note discount capitalized to real estate inventory | $ | 460 |  | $ | 579 |
| Amortization of deferred loan costs capitalized to real estate inventory | $ | 1,744 |  | $ | 1,844 |

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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 “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 or contagious diseases 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 effects of the ongoing novel coronavirus (“COVID-19”) pandemic, which are highly uncertain and subject to rapid change, cannot be predicted and will depend upon future developments, including the emergence and spread of new strains or variants of COVID-19, the severity and duration of the outbreak, the duration of existing and future social distancing and shelter-in-place orders, further mitigation strategies taken by applicable government authorities, the availability and efficacy of vaccines, adequate testing and treatments and the prevalence of widespread immunity to COVID-19;
* the effects 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;
* the availability of desirable and reasonably priced land and our ability to control, purchase, hold and develop such parcels;
* access to adequate capital on acceptable terms;
* geographic concentration of our operations, particularly within California;
* levels of competition;
* the successful execution of our internal performance plans, including restructuring and cost reduction initiatives;
* raw material and labor prices and availability;
* oil and other energy prices;
* the effects of U.S. trade policies, including the imposition of tariffs and duties on homebuilding products and retaliatory measures taken by other countries;
* the effects of weather, including the occurrence of drought conditions in California;
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* 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;
* the risk of loss from acts of war, terrorism, civil unrest or outbreaks of contagious diseases, such as COVID-19;
* transportation costs;
* federal and state tax policies;
* the effects 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;
* 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, 2020 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, 2020 and subsequent reports on Form 8-K, which discuss our business in greater detail. The section entitled “Risk Factors” set forth in Item 1A of our Annual Report on Form 10-K, and similar disclosures in our other SEC filings, discuss some of the important risk factors that may affect our business, results of operations and financial condition. Investors should carefully consider those risks, in addition to the information in this report and in our other filings with the SEC, before deciding to invest in, or maintain an investment in, our common stock.

**Overview and Outlook**

We are encouraged by the current backdrop of the housing market in the U.S., which remains very strong notwithstanding continuing challenges posed by the COVID-19 pandemic. The combination of historically low mortgage interest rates and historically low new home supply levels appear to be substantial factors driving higher demand within our industry. We believe the new home supply shortage is a significant factor that should serve as a buttress for the homebuilding industry both in the short and longer term. Interest rates, however, remain subject to volatility that may result from action taken by the Federal Reserve. Further, recent data have suggested that inflationary pressures may be more durable than anticipated, which could result in interest rate increases and/or the tapering of quantitative easing policies enacted towards the outset of the COVID-19 pandemic sooner than expected several months ago. While we continue to monitor a variety of economic indicators, including employment levels and inflation levels, as well as their impact on mortgage interest rates, we believe the intensified demand for new homes resulting from the emergence of millennial buyers, along with a pandemic-induced shift in sentiment regarding the role of a home, will continue to drive demand for homes sales.

Near-record-low housing supply levels have both contributed to the unprecedented demand environment that we have experienced over the last several quarters and allowed us to raise prices to largely offset inflationary cost pressures. Although we do not believe that affordability has reached a ceiling at this stage in the housing cycle, current levels of pricing power may exceed sustainable longer-term levels. Further, we continue to contend with cost volatility due to, among other things, supply chain disruptions and overall high demand for materials that include our primary input costs. Moreover, supply chain disruptions, along with labor availability issues and municipality delays, continue to adversely impact cycle times in all of our markets. Due to the broad-based nature of such supply chain disruptions across the global economy, we expect that inefficiencies and delays within our supply chain may persist during the near term.

Highlights of the quarter include an increase in homebuilding gross margin percentage to 24.6% and a reduction in selling, general and administrative expense as a percentage of home sales revenue to 9.6%. Our monthly absorption rate for the quarter was 4.7. These factors, along with an increase in average sales price of homes delivered to $653,000, allowed us to achieve net income of $117.9 million. While housing demand remains strong and our homebuilding gross margin percentage increased in the second quarter compared to the prior-year period, increased material costs could negatively impact our future homebuilding gross margins. As of June 30, 2021, our backlog units and dollar value of backlog have increased to 3,902 and $2.5 billion, respectively, up 53% and 50%, respectively, compared to the prior-year period. In addition, we ended the second quarter with total liquidity of $1.2 billion, including cash and cash equivalents of $556.5 million and $593.1 million of availability under our Credit Facility.

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Our results for the three months ended June 30, 2021 may not be indicative of trends that will persist, as uncertainty caused by COVID-19 and government responses to the pandemic have impacted, and will continue to impact, our business and operations.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June 30,** | | | | |  | **Six Months Ended June 30,** | | | |  |
|  |  | **2021** |  |  | **2020** |  |  | **2021** |  |  | **2020** |  |
| **Homebuilding:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Home sales revenue | $ | 1,009,307 |  | $ | 766,942 |  | $ | 1,725,982 |  | $ | 1,361,780 |  |
| Land and lot sales revenue |  | 5,416 |  |  | 220 |  |  | 6,939 |  |  | 220 |  |
| Other operations revenue |  | 660 |  |  | 648 |  |  | 1,323 |  |  | 1,266 |  |
| Total revenues |  | 1,015,383 |  |  | 767,810 |  |  | 1,734,244 |  |  | 1,363,266 |  |
| Cost of home sales |  | 761,215 |  |  | 601,434 |  |  | 1,306,571 |  |  | 1,074,316 |  |
| Cost of land and lot sales |  | 4,874 |  |  | 374 |  |  | 5,027 |  |  | 576 |  |
| Other operations expense |  | 686 |  |  | 624 |  |  | 1,310 |  |  | 1,248 |  |
| Sales and marketing |  | 45,489 |  |  | 45,194 |  |  | 85,949 |  |  | 87,831 |  |
| General and administrative |  | 51,263 |  |  | 37,554 |  |  | 92,612 |  |  | 77,391 |  |
| Restructuring charges |  | — | |  | 5,549 |  |  | — | |  | 5,549 |  |
| Homebuilding income from operations |  | 151,856 |  |  | 77,081 |  |  | 242,775 |  |  | 116,355 |  |
| Equity in loss of unconsolidated entities |  | (16) |  |  | (25) |  |  | (29) |  |  | (39) |  |
| Other income (loss), net |  | 149 |  |  | (6,328) |  |  | 257 |  |  | (5,955) |  |
| Homebuilding income before income taxes |  | 151,989 |  |  | 70,728 |  |  | 243,003 |  |  | 110,361 |  |
| **Financial Services:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Revenues |  | 2,681 |  |  | 2,296 |  |  | 4,786 |  |  | 3,890 |  |
| Expenses |  | 1,485 |  |  | 1,285 |  |  | 2,892 |  |  | 2,364 |  |
| Equity in income of unconsolidated entities |  | 3,949 |  |  | 2,932 |  |  | 6,640 |  |  | 4,488 |  |
| Financial services income before income taxes |  | 5,145 |  |  | 3,943 |  |  | 8,534 |  |  | 6,014 |  |
| **Income before income taxes** |  | 157,134 |  |  | 74,671 |  |  | 251,537 |  |  | 116,375 |  |
| Provision for income taxes |  | (39,265) |  |  | (18,143) |  |  | (62,866) |  |  | (27,964) |  |
| Net income | $ | 117,869 |  | $ | 56,528 |  | $ | 188,671 |  | $ | 88,411 |  |
| Earnings per share |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic | $ | 1.01 |  | $ | 0.43 |  | $ | 1.60 |  | $ | 0.67 |  |
| Diluted | $ | 1.00 |  | $ | 0.43 |  | $ | 1.59 |  | $ | 0.67 |  |

**Three Months Ended June 30, 2021 Compared to Three Months Ended June 30, 2020**

***Net New Home Orders, Average Selling Communities and Monthly Absorption Rates by Segment***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30, 2021** | | | | | | **Three Months Ended June 30, 2020** | | | | | |  |  | **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** |
| West | 1,133 |  | 71.7 |  | 5.3 |  | 967 |  | 99.0 |  | 3.3 |  | 17 % |  | (28)% |  | 62 % |
| Central | 336 |  | 27.8 |  | 4.0 |  | 255 |  | 33.5 |  | 2.5 |  | 32 % |  | (17)% |  | 59 % |
| East | 153 |  | 15.0 |  | 3.4 |  | 110 |  | 11.8 |  | 3.1 |  | 39 % |  | 27 % |  | 9 % |
| Total | 1,622 |  | 114.5 |  | 4.7 |  | 1,332 |  | 144.3 |  | 3.1 |  | 22 % |  | (21)% |  | 53 % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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Net new home orders for the three months ended June 30, 2021 increased by 290, or 22%, to 1,622, compared to 1,332 during the prior-year period. The increase in net new home orders was due to a 53% increase in monthly absorption rates, offset by a 20% decrease in average selling communities. New home order demand was exceptionally strong throughout the quarter as mortgage interest rates remained below historical levels and available housing inventory remained low. The strong demand environment, which has persisted since June 2020, has remained well above historical averages and has contributed to an overall decrease in our active selling communities due to the accelerated rate of sales activity and community close outs. We expect our community count to grow throughout the second half of 2021 as new communities in our pipeline begin to open in the forthcoming quarters.

Our West segment reported a 17% increase in net new home orders driven by a 62% increase in monthly absorption rate offset by a 28% decrease in average selling communities. As mentioned above, the demand environment during the first quarter was exceptionally strong, which we experienced in all of our markets in our West segment, as reflected by the 5.3 monthly absorption rate. The sustained high absorption rates we experienced in the current-year period contributed to a decline in average selling communities, as our rate of community close outs accelerated beyond our current capacity to open new ones. As we enter the second half of 2021, however, we anticipate that the number of new community openings will begin to largely offset and potentially eclipse our rate of close outs. Our Central segment reported a 32% increase in net new home orders due to a 59% increase in monthly absorption rates, offset by a 17% decrease in average selling communities. Absorption rates achieved in our Central segment remained strong, as both Texas and Colorado remain increasingly desirable locations due, in part, to in-migration trends as to such states. Our East segment reported a 39% increase in net new home orders due to a 27% increase in average selling communities along with a 9% increase in monthly absorption rates. While the order growth and absorption rate increases in the markets in our East segment were less significant as compared to our consolidated results, demand levels in the markets in our East segment remain strong, as evidenced by our 3.4 monthly absorption rate during the quarter. Community growth in our East segment was due in large part to our operations in Charlotte and Raleigh, North Carolina, where we commenced selling homes during the second half of 2020, as all activity in the East region during the prior-year period occurred in our DC Metro market.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **As of June 30, 2021** | | | |  |  |  |  |  | **As of June 30, 2020** | | |  |  |  |  | **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** |  |
| West | 2,536 | $ | | 1,756,858 |  | $ | 693 |  | 1,856 |  | $ | 1,293,450 |  | $ | 697 |  | 37 % | 36 % | |  | (1)% |  |
| Central | 948 |  |  | 499,295 |  |  | 527 |  | 411 |  |  | 200,820 |  |  | 489 |  | 131 % | 149 % | |  | 8 % |  |
| East | 418 |  |  | 268,289 |  |  | 642 |  | 291 |  |  | 184,798 |  |  | 635 |  | 44 % |  | 45 % |  | 1 % |  |
| Total | 3,902 | $ | | 2,524,442 |  | $ | 647 |  | 2,558 |  | $ | 1,679,068 |  | $ | 656 |  | 53 % | 50 % | |  | (1)% |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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) was 7% and 21% during the three-month periods ended June 30, 2021 and 2020, respectively. The dollar value of backlog was $2.5 billion as of June 30, 2021, an increase of $845.4 million, or 50%, compared to $1.7 billion as of June 30, 2020. This increase was due to an increase in backlog units of 1,344, or 53%, to 3,902 as of June 30, 2021, compared to 2,558 as of June 30, 2020, which was due primarily to increased order activity since the beginning of the third quarter of 2020 and a reduction in backlog conversion due to construction delays resulting from supply chain and labor dynamics. The average sales price of backlog units was $647,000 as of June 30, 2021, a decrease of $9,000, or 1%, compared to $656,000 at June 30, 2020. This decrease was due primarily to a combination of product mix as well as the geographic composition of backlog units, which included a greater percentage of units from certain of our markets that generally have lower average sales prices.

Backlog dollar value in our West segment increased 36% due to a 37% increase in backlog units. The higher backlog levels were due primarily to the increased order activity we experienced in the second half of 2020 and through the first six months of 2021. As we ended 2020 with an 82% increase in backlog units compared to 2019, we began 2021 with a substantial level of units in backlog. Our Central segment expanded its backlog dollar value by 149% on a 131% increase in backlog units. This strong growth was due primarily to the combination of a 40% increase in backlog as of the end of 2020 compared to the prior year, as well as a 59% increase in net new home orders in the first half of 2021 and a decrease of 6% in deliveries for the current year-to-date period. These results are due primarily to the strong demand environment experienced within our Central segment, though a slowdown in backlog conversion due to construction delays resulting from various supply chain and labor

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dynamics caused by the pandemic, along with weather related delays experienced in Texas during the first quarter of the current year, contributed to the increased backlog, as well. Backlog dollar value in our East segment increased by 45% due to a 44% increase in backlog units. Order activity in the second half of 2020 contributed to elevated levels of backlog to begin the current year, which increased further due to year-over-year increases in net new home orders during the current year-to-date period. As we began selling homes in both Charlotte and Raleigh in the second half of 2020, our 64 units of backlog in these markets for the current period had no prior-year period comparable numbers.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30, 2021** | | | | | | | | **Three Months Ended June 30, 2020** | | | | | | | |  | **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** |
| West | 1,117 |  | $ | 778,881 |  | $ | 697 |  | 804 |  | $ | 539,379 |  | $ | 671 |  | 39 % | 44 % | |  | 4 % |
| Central | 292 |  |  | 149,620 |  |  | 512 |  | 309 |  |  | 153,957 |  |  | 498 |  | (6)% | (3)% | |  | 3 % |
| East | 136 |  |  | 80,806 |  |  | 594 |  | 116 |  |  | 73,606 |  |  | 635 |  | 17 % |  | 10 % |  | (6)% |
| Total | 1,545 |  | $ | 1,009,307 |  | $ | 653 |  | 1,229 |  | $ | 766,942 |  | $ | 624 |  | 26 % | 32 % | |  | 5 % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Home sales revenue increased $242.4 million, or 32%, to $1.0 billion for the three months ended June 30, 2021. The increase was comprised of (i) $197.2 million related to an increase of 316 new homes delivered in the three months ended June 30, 2021 compared to the prior-year period and (ii) $45.2 million related to an increase of $29,000 in average sales price of homes delivered in the three months ended June 30, 2021 compared to the prior-year period.

Home sales revenue in our West segment increased 44% due to a 39% increase in new homes delivered and a 4% increase in average sales price during the current-year period. The increase in new homes delivered is due to higher backlog units to start the current-year period compared to the prior-year period. Home sales revenue in our Central segment decreased 3% due to a 6% decrease in new homes delivered, offset by a 3% increase in average sales price. The decrease in new homes delivered was due to delays resulting from broader supply chain constraints. As backlog units have increased 131% on a year-over-year basis, however, we expect that deliveries in Central segment should regain favorable comparisons in the second half of 2021. Home sales revenue increased in our East segment by 10% due to a 17% increase in new homes delivered, offset by a 6% decrease in average sales price. The increase in new homes delivered was due to a higher number of backlog units to start the current-year period compared to the prior-year period, whereas the decrease in average sales price is due to product mix.

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

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Three Months Ended June 30,** | | | | |  |
|  |  | **2021** |  | **%** |  |  | **2020** |  | **%** |
| Home sales revenue | $ | 1,009,307 |  | 100.0 % |  | $ | 766,942 |  | 100.0 % |
| Cost of home sales |  | 761,215 |  | 75.4 % |  |  | 601,434 |  | 78.4 % |
| Homebuilding gross margin |  | 248,092 |  | 24.6 % |  |  | 165,508 |  | 21.6 % |
| Add: interest in cost of home sales |  | 30,851 |  | 3.1 % |  |  | 21,801 |  | 2.8 % |
| Add: impairments and lot option abandonments |  | 232 |  | 0.0 % |  |  | 1,380 |  | 0.2 % |
| Adjusted homebuilding gross margin(1) | $ | 279,175 |  | 27.7 % |  | $ | 188,689 |  | 24.6 % |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Homebuilding gross margin percentage | 24.6 % |  |  |  | 21.6 % |  |  |
|  |  |  |  |  |  |  |  |
| Adjusted homebuilding gross margin percentage(1) | 27.7 % |  |  |  | 24.6 % |  |  |
|  |  |  |  |  |  |  |  |

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

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

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Our homebuilding gross margin percentage increased to 24.6% for the three months ended June 30, 2021 as compared to 21.6% for the prior-year

period. The increase in gross margin percentage was due to a combination of product mix and the realization of price increases to units that we began selling into

backlog beginning in mid-2020, at which time new home demand had begun to materially rebound from the COVID-19-induced slowdown. The strong demand

environment has resulted in lower incentives and has allowed us to raise prices in all of our markets. Excluding interest and impairment and lot option

abandonments in cost of home sales, adjusted homebuilding gross margin percentage was 27.7% for the three months ended June 30, 2021, compared to 24.6%

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 June 30,** | | | |  |  | **As a Percentage of** | | |  |  |
|  |  |  | **Home Sales Revenue** | | |  |  |
|  | **2021** |  |  | **2020** |  |  | **2021** |  |  | **2020** |  |
| Sales and marketing | $ | 45,489 |  | $ | 45,194 |  | 4.5 % |  |  | 5.9 % |  |
| General and administrative (G&A) |  | 51,263 |  |  | 37,554 |  | 5.1 % |  |  | 4.9 % |  |
| Total sales and marketing and G&A | $ | 96,752 |  | $ | 82,748 |  | 9.6 % |  |  | 10.8 % |  |
|  |  |  |  |  |  |  |  |  |  |  |  |

Total sales and marketing and general and administrative (“SG&A”) as a percentage of home sales revenue decreased to 9.6% for the three months ended June 30, 2021, compared to 10.8% in the prior-year period. Total SG&A expense increased $14.0 million to $96.8 million for the three months ended June 30, 2021 from $82.7 million in the prior-year period.

Sales and marketing expense as a percentage of home sales revenue decreased to 4.5% for the three months ended June 30, 2021, compared to 5.9% for the prior-year period. The decrease was due primarily to lower advertising expense and higher leverage on the fixed components of sales and marketing expense as a result of the 32% increase in homebuilding revenue compared to the prior-year period.

General and administrative (“G&A”) expense as a percentage of home sales revenue increased to 5.1% of home sales revenue for the three months ended June 30, 2021 compared to 4.9% for the prior-year period largely due to higher leverage on our G&A expense as a result of the 32% increase in homebuilding revenue compared to the prior-year period. G&A expense increased to $51.3 million for the three months ended June 30, 2021 compared to $37.6 million for the prior-year period, largely due to higher incentive compensation expense.

***Restructuring Charges***

In May 2020, due to the existing and anticipated future impact of the COVID-19 pandemic on our business, we implemented a workforce reduction plan. As a result of the workforce reduction plan, during the three months ended June 30, 2020 we incurred $5.5 million of pre-tax restructuring charges consisting of severance and related costs, all of which had been paid as of December 31, 2020. No restructuring charges have been incurred in the current year.

***Interest***

Interest, which we incurred principally to finance land acquisitions, land development and home construction, totaled $22.6 million and $21.8 million for the three months ended June 30, 2021 and 2020, respectively. All interest incurred in both periods was capitalized.

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***Income Tax***

For the three months ended June 30, 2021, we recorded a tax provision of $39.3 million based on an effective tax rate of 25.0%. For the three months ended June 30, 2020, we recorded a tax provision of $18.1 million based on an effective tax rate of 24.3%. The increase in provision for income taxes is due to a $82.5 million increase in income before income taxes to $157.1 million for the three months ended June 30, 2021, compared to $74.7 million for the prior-year period.

***Financial Services Segment***

Income before income taxes from our financial services operations increased to $5.1 million for the three months ended June 30, 2021 compared to $3.9 million for the prior-year period. This increase is due to higher home sales volume in the three months ended June 30, 2021 compared to the prior-year period, resulting in a corresponding increase in financial services captured in the current-year period. We experienced higher financial services profit in all three areas of our financial services segment, represented by mortgage financing, title and escrow services, and property and casualty insurance operations.

**Six Months Ended June 30, 2021 Compared to Six Months Ended June 30, 2020**

***Net New Home Orders, Average Selling Communities and Monthly Absorption Rates by Segment***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Six Months Ended June 30, 2021** | | | | | | **Six Months Ended June 30, 2020** | | | | | |  |  | **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** |
| West | 2,410 |  | 70.9 |  | 5.7 |  | 2,163 |  | 95.5 |  | 3.8 |  | 11 % |  | (26)% |  | 50 % |
| Central | 870 |  | 28.3 |  | 5.1 |  | 548 |  | 34.2 |  | 2.7 |  | 59 % |  | (17)% |  | 89 % |
| East | 329 |  | 14.2 |  | 3.9 |  | 282 |  | 12.7 |  | 3.7 |  | 17 % |  | 12 % |  | 5 % |
| Total | 3,609 |  | 113.4 |  | 5.3 |  | 2,993 |  | 142.4 |  | 3.5 |  | 21 % |  | (20)% |  | 51 % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Net new home orders for the six months ended June 30, 2021 increased by 616, or 21%, to 3,609, compared to 2,993 during the prior-year period. The increase in net new home orders was due to a 51% increase in monthly absorption rates, offset by a 20% decrease in average selling communities. New home order demand has been exceptionally strong throughout 2021 due in part to sustained low mortgage interest rates and reduced levels of available housing inventory. The strong demand environment, which has persisted since June 2020, has remained well above historical averages and has contributed to an overall decrease in our active selling communities due to the accelerated rate of sales activity and community close outs. We expect our community count to grow throughout 2021 as new communities in our pipeline begin to open in the forthcoming quarters.

Our West segment reported an 11% increase in net new home orders driven by a 50% increase in monthly absorption rate offset by a 26% decrease in average selling communities. As mentioned above, the demand environment during the first quarter was exceptionally strong, which we experienced in all of our markets in our West segment. The sustained high absorption rates we experienced in the current-year period contributed to a decline in average selling communities, as our rate of community close outs accelerated beyond our current capacity to open new ones. Our Central segment reported a 59% increase in net new home orders due to an 89% increase in monthly absorption rates, offset by a 17% decrease in average selling communities. We experienced an increase in absorption rates in each of our markets in our Central segment, as both Texas and Colorado appear to be increasingly desirable locations due, in part, to in-migration trends as to such states. Our East segment reported a 17% increase in net new home orders due to a 12% increase in average selling communities and a 5% increase in monthly absorption rates. While the order growth and absorption rate increases in the markets in our East segment were less significant as compared to our consolidated results, demand levels in the markets in our East segment remain substantially above historical averages, as evidenced by our 3.9 monthly absorption rate during the period. All activity in the East region during the prior-year period occurred in our DC Metro market, as we had not yet begun to actively sell homes in either the Charlotte or Raleigh markets during such prior-year period.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Six Months Ended June 30, 2021** | | | | | | | | **Six Months Ended June 30, 2020** | | | | | | | |  | **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** |
| West | 1,886 |  | $ | 1,316,769 |  | $ | 698 |  | 1,415 |  | $ | 955,304 |  | $ | 675 |  | 33 % | 38 % | |  | 3 % |
| Central | 546 |  |  | 270,738 |  |  | 496 |  | 582 |  |  | 286,433 |  |  | 492 |  | (6)% | (5)% | |  | 1 % |
| East | 239 |  |  | 138,475 |  |  | 579 |  | 190 |  |  | 120,043 |  |  | 632 |  | 26 % |  | 15 % |  | (8)% |
| Total | 2,671 |  | $ | 1,725,982 |  | $ | 646 |  | 2,187 |  | $ | 1,361,780 |  | $ | 623 |  | 22 % | 27 % | |  | 4 % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Home sales revenue increased $364.2 million, or 27%, to $1.7 billion for the six months ended June 30, 2021. The increase was comprised of (i) $301.4 million related to an increase of 484 new homes delivered in the six months ended June 30, 2021 compared to the prior-year period and (ii) $62.8 million related to an increase of $23,000 in average sales price of homes delivered in the six months ended June 30, 2021 compared to the prior-year period.

Home sales revenue in our West segment increased 38% due to a 33% increase in new homes delivered and a 3% increase in average sales price during the current-year period. The increase in new homes delivered is due to higher backlog units to start the current-year period compared to the prior-year period. Home sales revenue in our Central segment decreased 5% due to a 6% decrease in new homes delivered. The decrease in new homes delivered was due in part to longer cycle times associated with the weather-induced electricity issues experienced in Texas during the first quarter, as well as delays resulting from broader supply chain and labor constraints. Home sales revenue increased in our East segment by 15% due to a 26% increase in new homes delivered, offset by an 8% decrease in average sales price. The increase in new homes delivered was due to a higher number of backlog units to start the current-year period compared to the prior-year period, whereas the decrease in average sales price is due to product mix.

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

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Six Months Ended June 30,** | | | | |  |
|  |  | **2021** |  | **%** |  |  | **2020** |  | **%** |
| Home sales revenue | $ | 1,725,982 |  | 100.0 % |  | $ | 1,361,780 |  | 100.0 % |
| Cost of home sales |  | 1,306,571 |  | 75.7 % |  |  | 1,074,316 |  | 78.9 % |
| Homebuilding gross margin |  | 419,411 |  | 24.3 % |  |  | 287,464 |  | 21.1 % |
| Add: interest in cost of home sales |  | 51,529 |  | 3.0 % |  |  | 38,623 |  | 2.8 % |
| Add: impairments and lot option abandonments |  | 445 |  | 0.0 % |  |  | 1,729 |  | 0.1 % |
| Adjusted homebuilding gross margin(1) | $ | 471,385 |  | 27.3 % |  | $ | 327,816 |  | 24.1 % |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Homebuilding gross margin percentage | 24.3 % |  |  |  | 21.1 % |  |  |
|  |  |  |  |  |  |  |  |
| Adjusted homebuilding gross margin percentage(1) | 27.3 % |  |  |  | 24.1 % |  |  |
|  |  |  |  |  |  |  |  |

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

Our homebuilding gross margin percentage increased to 24.3% for the six months ended June 30, 2021 as compared to 21.1% for the prior-year

period. The increase in gross margin percentage was due to a combination of product mix and the realization of price increases to units that we began selling into backlog beginning in mid-2020, at which time new home demand had begun to materially rebound from the COVID-19-induced slowdown. The strong demand environment has resulted in lower incentives and has allowed us to raise prices in all of our markets. Excluding interest and impairment and lot option abandonments in cost of home sales, adjusted homebuilding gross margin percentage was 27.3% for the six months ended June 30, 2021, compared to 24.1% 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.

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

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Six Months Ended June 30,** | | | | | **As a Percentage of** | | |  |  |
|  |  | **Home Sales Revenue** | | |  |  |
|  |  | **2021** |  |  | **2020** |  | **2021** |  |  | **2020** |  |
| Sales and marketing | $ | 85,949 |  | $ | 87,831 |  | 5.0 % |  |  | 6.4 % |  |
| General and administrative (G&A) |  | 92,612 |  |  | 77,391 |  | 5.4 % |  |  | 5.7 % |  |
| Total sales and marketing and G&A | $ | 178,561 |  | $ | 165,222 |  | 10.3 % |  |  | 12.1 % |  |
|  |  |  |  |  |  |  |  |  |  |  |  |

Total SG&A as a percentage of home sales revenue decreased to 10.3% for the six months ended June 30, 2021, compared to 12.1% in the prior-year period. Total SG&A expense increased $13.3 million to $178.6 million for the six months ended June 30, 2021 from $165.2 million in the prior-year period.

Sales and marketing expense as a percentage of home sales revenue decreased to 5.0% for the six months ended June 30, 2021, compared to 6.4% for the prior-year period. The decrease was due primarily to lower advertising expense and higher leverage on the fixed components of sales and marketing expense as a result of the 27% increase in homebuilding revenue compared to the prior-year period. Sales and marketing expense decreased to $85.9 million for the six months ended June 30, 2021 compared to $87.8 million for the prior-year period.

G&A expense as a percentage of home sales revenue decreased to 5.4% of home sales revenue for the six months ended June 30, 2021 compared to 5.7% for the prior-year period largely due to higher leverage on our G&A expense as a result of the 27% increase in homebuilding revenue compared to the prior-year period. G&A expense increased to $92.6 million for the six months ended June 30, 2021 compared to $77.4 million for the prior-year period.

***Interest***

Interest, which we incurred principally to finance land acquisitions, land development and home construction, totaled $43.7 million and $42.6 million for the six months ended June 30, 2021 and 2020, respectively. All interest incurred in both periods was capitalized.

***Income Tax***

For the six months ended June 30, 2021, we recorded a tax provision of $62.9 million based on an effective tax rate of 25.0%. For the six months ended

June 30, 2020, we recorded a tax provision of $28.0 million based on an effective tax rate of 24.0%. The increase in provision for income taxes is due to a

$135.2 million increase in income before income taxes to $251.5 million for the six months ended June 30, 2021, compared to $116.4 million for the prior-year

period.

***Financial Services Segment***

Income before income taxes from our financial services operations increased to $8.5 million for the six months ended June 30, 2021 compared to $6.0 million for the prior-year period. This increase is due to higher home sales volume in the six months ended June 30, 2021 compared to the prior-year period, resulting in a corresponding increase in financial services captured in the current-year period. We experienced higher financial services profit in all three areas of our financial services segment, represented by mortgage financing, title and escrow services, and property and casualty insurance operations.

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

Lots owned or controlled include our share of lots controlled by our unconsolidated land development joint ventures. Investments in joint ventures are described in Note 6, *Investments in Unconsolidated Entities*, of the notes to our 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:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June 30,** | | |  |  | **Increase** | | |  |  |
|  |  |  | **(Decrease)** | | |  |  |
|  | **2021** |  |  | **2020** |  | **Amount** | | | **%** |  |
| **Lots Owned** |  |  |  |  |  |  |  |  |  |  |
| West | 16,065 |  |  | 17,309 |  | (1,244) |  |  | (7)% |  |
| Central | 5,065 |  |  | 3,368 |  | 1,697 |  |  | 50 % |  |
| East | 1,576 |  |  | 1,072 |  | 504 |  |  | 47 % |  |
| Total | 22,706 |  |  | 21,749 |  | 957 |  |  | 4 % |  |
| **Lots Controlled(1)** |  |  |  |  |  |  |  |  |  |  |
| West | 5,673 |  |  | 3,363 |  | 2,310 |  |  | 69 % |  |
| Central | 5,341 |  |  | 1,971 |  | 3,370 |  |  | 171 % |  |
| East | 3,392 |  |  | 2,717 |  | 675 |  |  | 25 % |  |
| Total | 14,406 |  |  | 8,051 |  | 6,355 |  |  | 79 % |  |
| **Total Lots Owned or Controlled(1)** | 37,112 |  |  | 29,800 |  | 7,312 |  |  | 25 % |  |
|  |  |  |  |  |  |  |  |  |  |  |

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

1. As of June 30, 2021 and 2020, lots controlled represented lots that were under land or lot option contracts or purchase contracts. As of June 30, 2021, lots controlled for Central and East include 2,060 lots and 184 lots, respectively, which represent our expected share of lots owned by our unconsolidated land development joint ventures.

**Liquidity and Capital Resources**

***Overview***

Our principal uses of capital for the six months ended June 30, 2021 were operating expenses, land purchases, land development, home construction and repurchases of our common stock. We used funds generated by our operations to meet our short-term working capital requirements. We monitor financing requirements to evaluate potential financing sources, including bank credit facilities and note offerings. While the ultimate effects of the COVID-19 pandemic on the U.S. economic environment remain unknown, we continue to monitor the credit markets as 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 June 30, 2021, we had total liquidity of $1.2 billion, including cash and cash equivalents of $556.5 million and $593.1 million of availability under our Credit Facility, as described below, 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 2020, Tri Pointe issued $350 million aggregate principal amount of 5.700% Senior Notes due 2028 (the “2028 Notes”) at 100.00% of their aggregate principal amount. Net proceeds of this issuance were $345.2 million, after debt issuance costs and discounts. The 2028 Notes mature on June 15, 2028 and interest is paid semiannually in arrears on June 15 and December 15.

In June 2017, Tri Pointe 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.

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Tri Pointe and its wholly owned subsidiary Tri Pointe Homes Holdings, Inc. are co-issuers of the $450 million aggregate principal amount 5.875% Senior Notes due 2024 (the “2024 Notes”). The 2024 Notes were issued at 98.15% of their aggregate principal amount. The net proceeds from the offering of the 2024 Notes was $429.0 million, after debt issuance costs and discounts. The 2024 Notes mature on June 15, 2024, with interest payable semiannually in arrears on June 15 and December 15 of each year until maturity.

Our outstanding senior notes (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. As of June 30, 2021, we were in compliance with the covenants required by our Senior Notes.

***Loans Payable***

On June 10, 2021, we entered into a Second Modification Agreement (the “Modification”) to our Second Amended and Restated Credit Agreement dated

as of March 29, 2019. The Modification, among other things, (i) increases the maximum amount of the revolving credit facility (the “Revolving Facility”) under

the Credit Agreement from $600.0 million to $650.0 million and (ii) extends the maturity date of both the Revolving Facility and term loan facility (the “Term

Facility”) under the Credit Agreement to June 10, 2026; provided that the maturity date for $45.0 million of commitments under the Revolving Facility and

$30.0 million of loans under the Term Facility, respectively, were not extended and remain scheduled to mature on March 29, 2023. We may increase the Credit

Facility to not more than $1 billion in the aggregate, at our request, upon satisfaction of specified conditions. The Revolving Facility contains a sublimit of $100

million for letters of credit. We may borrow under the Revolving Facility in the ordinary course of business to repay senior notes and fund our operations,

including our land acquisition, land development and homebuilding activities. Borrowings under the Revolving Facility will be governed by, among other

things, a borrowing base. Interest rates on borrowings under the Revolving 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 1.90%, depending on the Company’s leverage ratio. Interest rates on borrowings under the Term Facility will

be based on either a daily Eurocurrency base rate or a Eurocurrency rate, in either case, plus a spread ranging from 1.10% to 1.85%, depending on the

Company’s leverage ratio.

As of June 30, 2021, we had no outstanding debt under the Revolving Facility and there was $593.1 million of availability after considering the borrowing base provisions and outstanding letters of credit. As of June 30, 2021, we had $250 million outstanding debt under the Term Facility with an interest rate of 1.19%. As of June 30, 2021, there were $6.0 million of capitalized debt financing costs, included in other assets on our consolidated balance sheet, related to the Credit Agreement that will amortize over the remaining term of the Credit Agreement. Accrued interest, including loan commitment fees, related to the Credit Agreement was $528,000 and $617,000 as of June 30, 2021 and December 31, 2020, respectively.

At June 30, 2021 and December 31, 2020, we had outstanding letters of credit of $47.9 million and $64.1 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.

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** |  |
|  |  | **June 30,** | |  | **June 30,** |  |
| **Financial Covenants** |  | **2021** |  |  | **2021** |  |
| Consolidated Tangible Net Worth | $ | 2,122,688 |  | $ | 1,689,033 |  |
| (Not less than $1.35 billion plus 50% of net income and |  |  |  |  |  |  |
| 50% of the net proceeds from equity offerings after |  |  |  |  |  |  |
| December 31, 2018) |  |  |  |  |  |  |
| Leverage Test |  | 27.7 % |  |  | ≤55% |  |
| (Not to exceed 55%) |  |  |  |  |  |  |
| Interest Coverage Test |  | 8.0 |  |  | ≥1.5 |  |
| (Not less than 1.5:1.0) |  |  |  |  |  |  |

In addition, the Credit Facility limits the aggregate number of single family dwellings (where construction has commenced) owned by the Company or any guarantor that are not presold or model units to no more than the greater of (i) 50% of the number of housing unit closings (as defined) during the preceding 12 months; or (ii) 100% of the number of housing unit

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closings during the preceding 6 months. However, a failure to comply with this “Spec Unit Inventory Test” will not be an event of default or default, but will be excluded from the borrowing base as of the last day of the quarter in which the non-compliance occurs. The Credit Facility further requires that at least 97.0% of consolidated tangible net worth must be attributable to the Company and its guarantor subsidiaries, subject to certain grace periods.

As of June 30, 2021, we were in compliance with all of these financial covenants.

***Stock Repurchase Program***

On November 11, 2020, we announced the approval of a new stock repurchase program authorizing the repurchase of up to $250 million of common stock through December 31, 2021 (the “Repurchase Program”). On July 21, 2021, our board of directors authorized the repurchase of up to an additional $250 million of common stock and extended the term of the Repurchase Program through December 31, 2022, increasing the aggregate value of shares of common stock authorized to be repurchased under the Repurchase Program from $250 million to $500 million. Purchases of common stock pursuant to the 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 Securities Exchange Act of 1934, as amended. We are not obligated under the Repurchase Program to repurchase any specific number or amount of shares of common stock, and we may modify, suspend or discontinue the program at any time. Company management will determine the timing and amount of any repurchases in its discretion based on a variety of factors, such as the market price of our common stock, corporate requirements, general market economic conditions and legal requirements. During the three months ended June 30, 2021, we repurchased and retired an aggregate of 3,666,676 shares of our common stock under the Repurchase Program for $82.9 million. For the six months ended June 30, 2021, we repurchased and retired an aggregate of 7,326,237 million shares of common stock for a total of $148.3 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):

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **June 30, 2021** | |  | **December 31, 2020** |
| Loans Payable | $ | 258,979 |  | $ | 258,979 |
| Senior Notes |  | 1,085,595 |  |  | 1,084,022 |
| Total debt |  | 1,344,574 |  |  | 1,343,001 |
| Stockholders’ equity |  | 2,279,290 |  |  | 2,232,537 |
| Total capital | $ | 3,623,864 |  | $ | 3,575,538 |
|  |  |  |  |  |  |
| Ratio of debt-to-capital(1) |  | 37.1 % |  |  | 37.6 % |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| Total debt | $ | 1,344,574 |  | $ | 1,343,001 |
| Less: Cash and cash equivalents |  | (556,483) |  |  | (621,295) |
| Net debt |  | 788,091 |  |  | 721,706 |
| Stockholders’ equity |  | 2,279,290 |  |  | 2,232,537 |
| Net capital | $ | 3,067,381 |  | $ | 2,954,243 |
|  |  |  |  |  |  |
| Ratio of net debt-to-net capital(2) |  | 25.7 % |  |  | 24.4 % |
|  |  |  |  |  |  |

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

1. The ratio of debt-to-capital is computed as the quotient obtained by dividing total debt by the sum of total debt plus stockholders’ 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 stockholders’ equity. The most directly comparable GAAP financial measure is the ratio of debt-to-capital. We believe the ratio of net debt-to-net capital is a relevant financial measure for investors to understand the leverage employed in our operations and as an indicator of our ability to obtain financing. See the table above reconciling this non-GAAP financial measure to the ratio of debt-to-capital. Because the ratio of net debt-to-net capital is not calculated in accordance with GAAP, it may not be comparable to other similarly titled measures of other companies and should not be considered in isolation or as a substitute for, or superior to, financial measures prepared in accordance with GAAP.
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***Cash Flows—Six Months Ended June 30, 2021 Compared to Six Months Ended June 30, 2020***

For the six months ended June 30, 2021 as compared to the six months ended June 30, 2020:

* Net cash provided by operating activities decreased by $68.9 million to $97.3 million for the six months ended June 30, 2021 compared to net cash provided by operating activities of $166.2 million for the prior-year period. The change was comprised of offsetting activity, including (i) an increase in net income to $188.7 million for the six months ended June 30, 2021 compared to $88.4 million in the prior-year period, (ii) an increase in cash used for real estate inventory purchases of $227.6 million and (iii) other offsetting changes in other assets, receivables, accounts payable, accrued expenses and other liabilities, deferred income taxes and returns on investments in unconsolidated entities. The timing of cash used for real estate inventory purchases for the prior-year period was impacted by uncertainty surrounding the onset of the COVID-19 pandemic.
* Net cash used in investing activities was $8.5 million for the six months ended June 30, 2021, compared to net cash used of $37.7 million for the prior-year period. The change in net cash used in investing activities was due mainly to the net change in cash flows related to investments in unconsolidated entities and a decrease in purchases of property and equipment.
* Net cash used in financing activities was $153.7 million for the six months ended June 30, 2021, compared to net cash provided by financing activities of $17.0 million for the prior-year period. Net cash used in financing activities in the current-year period was primarily comprised of $148.3 million of cash used for share repurchases. The prior-year period cash provided by financing activities was due primarily to the net borrowing of $128.3 million under our Revolving Facility offset by $102.0 million of cash used for share repurchases for the six months ended June 30, 2020. The borrowing under our Revolving Facility in the prior-year period was due primarily to the uncertainty surrounding the onset of the COVID-19 pandemic.

**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 June 30, 2021, we had $166.7 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 $1.1 billion (net of deposits). See Note 7, *Variable Interest Entities*, to the accompanying condensed notes to unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q.

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 June 30, 2021, we held equity investments in nine 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. See 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.

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**Supplemental Guarantor Financial Information**

**2027 Notes and 2028 Notes**

On June 5, 2017, Tri Pointe issued the 2027 Notes and on June 10, 2020, Tri Pointe issued the 2028 Notes. All of Tri Pointe’s 100% owned subsidiaries that are guarantors (each a “Guarantor” and, collectively, the “Guarantors”) of the Credit Facility, including Tri Pointe Homes Holdings, are party to supplemental indentures pursuant to which they jointly and severally guarantee Tri Pointe’s obligations with respect to these Notes. Each Guarantor of the 2027 Notes and the 2028 Notes is 100% owned by Tri Pointe, and all guarantees are full and unconditional, subject to customary exceptions pursuant to the indentures governing the 2027 Notes and the 2028 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 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 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 2027 Notes and the 2028 Notes shall be released from all of its obligations under its guarantee if (i) all of the assets of the Guarantor have been sold; (ii) all of the equity interests of the Guarantor held by Tri Pointe or a subsidiary thereof have been sold; (iii) the Guarantor merges with and into Tri Pointe or another Guarantor, with Tri Pointe or such other Guarantor surviving the merger; (iv) the Guarantor is designated “unrestricted” for covenant purposes; (v) the Guarantor ceases to guarantee any indebtedness of Tri Pointe or any other Guarantor which gave rise to such Guarantor guaranteeing the 2027 Notes or the 2028 Notes; (vi) Tri Pointe exercises its legal defeasance or covenant defeasance options; or (vii) all obligations under the applicable supplemental indenture are discharged.

**2024 Notes**

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

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

Tri Pointe’s non-Guarantor subsidiaries are considered minor, as defined in Rule 3-10(h) of Regulation S-X, therefore the consolidated financial statements represent the full issuer and guarantor subsidiary results.

**Inflation**

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

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**Seasonality**

We have experienced seasonal variations in our quarterly operating results and capital requirements. We typically take orders for more homes in the first half of the fiscal year than in the second half, which creates additional working capital requirements in the second and third quarters to build our inventories to satisfy the deliveries in 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 (including developments and volatility resulting from COVID-19). In addition to the overall volume of orders and deliveries, our operating results in a given quarter are significantly affected by the number and characteristics of our active selling communities; timing of new community openings; the timing of land and lot sales; and the mix of product types, geographic locations and average selling prices of the homes delivered during the quarter. Therefore, our operating results in any given quarter will fluctuate compared to prior periods based on these factors.

**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, 2020 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.

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, 2020.

**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 six months ended June 30, 2021. We did not enter into during the six months ended June 30, 2021, 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 June 30, 2021.

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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 June 30, 2021 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 June 30, 2021.

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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 to the risk factors in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2020. 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 November 11, 2020, we announced the approval of our new Repurchase Program authorizing the repurchase of up to $250 million of common stock through December 31, 2021. On July 21, 2021, our board of directors authorized the repurchase of up to an additional $250 million of common stock and extended the term of the Repurchase Program through December 31, 2022, increasing the aggregate value of shares of common stock authorized to be repurchased under the Repurchase Program from $250 million to $500 million. Purchases of common stock pursuant to the 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 Securities Exchange Act of 1934, as amended. We are not obligated under the Repurchase Program to repurchase any specific number or amount of shares of common stock, and we may modify, suspend or discontinue the program at any time. Company management will determine the timing and amount of any repurchases in its discretion based on a variety of factors, such as the market price of our common stock, corporate requirements, general market economic conditions and legal requirements. During the three months ended June 30, 2021, we repurchased and retired an aggregate of 3,666,676 shares of our common stock under the Repurchase Program for $82.9 million. For the six months ended June 30, 2021, we repurchased and retired an aggregate of 7,326,237 million shares of common stock for a total of $148.3 million.

During the three months ended June 30, 2021, we repurchased and retired the following shares pursuant to our repurchase programs:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **Total number** |  |  | **Approximate do** |  |
|  | **Total number** |  |  | **Average price paid** | | **of shares purchased as** |  |  |  |
|  |  |  | **part of publicly** |  | **value of shares that may y** | |  |
|  | **of shares purchased** |  |  | **per share** |  | **announced program** |  | **purchased under the prog** | |  |
| April 1, 2021 to April 30, 2021 | 1,600,000 | $ | | 21.92 |  | 1,600,000 | $ | | 100,473 |  |
| May 1, 2021 to May 31, 2021 | 1,124,500 | $ | | 24.42 |  | 1,124,500 | $ | | 73,015 |  |
| June 1, 2021 to June 30, 2021 | 942,176 | $ | | 21.56 |  | 942,176 | $ | | 52,697 |  |
| Total | 3,666,676 | $ | | 22.60 |  | 3,666,676 |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |

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

1. Subsequent to June 30, 2021 and through the date of this filing, we repurchased an additional 2,125,892 shares of common stock at an average price per share of $21.33 for an aggregate dollar amount of approximately $45.3 million under the Repurchase Program. On July 22, 2021, we announced an increase in the authorization under the Repurchase Program of $250 million and the extension of the term of the Repurchase Program through December 31, 2022.
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**Item 6.** **Exhibits**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| ***Exhibit*** | | | | | ***Exhibit Description*** |  |
| ***Number*** | | | | |  |
| [3.1](http://www.sec.gov/Archives/edgar/data/1561680/000119312515246892/d25110dex31.htm) | | | |  | Amended and Restated Certificate of Incorporation of Tri Pointe Homes, Inc. (incorporated by reference to Exhibit 3.1 to the Company’s |  |
|  |  |  |  |  | Current Report on Form 8-K (filed July 7, 2015)) |  |
| [3.2](https://www.sec.gov/Archives/edgar/data/1561680/000156168021000011/ex31certificateofamendment.htm) | | | |  | Certificate of Amendment to Amended and Restated Certificate of Incorporation of Tri Pointe Homes, Inc. (incorporated by reference to |  |
|  |  |  |  |  | Exhibit 3.1 to the Company’s Current Report on Form 8‑K (filed January 21, 2021)) |  |
| [3.3](http://www.sec.gov/Archives/edgar/data/1561680/000156168016000038/arbylawsoftripointegroup-f.htm) | | | |  | Amended and Restated Bylaws of Tri Pointe Homes, Inc. (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form |  |
|  |  |  |  |  | 8-K (filed October 27, 2016)) |  |
| [10.1](https://www.sec.gov/Archives/edgar/data/1561680/000156168021000085/tphsecondmodificationagree.htm) | | | |  | Second Modification Agreement, dated as of June 10, 2021, among Tri Pointe Homes, Inc., U.S. Bank National Association, d/b/a Housing |  |
|  |  |  |  |  | Capital Company, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K (filed |  |
|  |  |  |  |  | June 11, 2021)) |  |
| [22.1](https://www.sec.gov/Archives/edgar/data/1561680/000156168021000023/tph10k2020ex221.htm) | | | |  | List of guarantor subsidiaries of Tri Pointe Homes, Inc. (incorporated by reference to Exhibit 22.1 to the Company’s Annual Report on Form |  |
|  |  |  |  |  | 10-K (filed February 19, 2021)) |  |
|  | [31.1](#page46) | | |  | Chief Executive Officer Section 302 Certification of the Sarbanes-Oxley Act of 2002 |  |
|  | [31.2](#page47) | | |  | Chief Financial Officer Section 302 Certification of the Sarbanes-Oxley Act of 2002 |  |
|  | [32.1](#page48) | | |  | Chief Executive Officer Section 906 Certification of the Sarbanes-Oxley Act of 2002 |  |
|  | [32.2](#page49) | | |  | Chief Financial Officer Section 906 Certification of the Sarbanes-Oxley Act of 2002 |  |

1. The following materials from Tri Pointe Homes, Inc.’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2021, formatted in Inline eXtensible Business Reporting Language (iXBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations,

(iii) Consolidated Statement of Cash Flows, and (iv) Condensed Notes to Consolidated Financial Statement.

1. Cover page from Tri Pointe Homes, Inc.’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2021, formatted in Inline XBRL (and contained in Exhibit 101).
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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 Homes, Inc. | |
| Date: July 22, 2021 | By: | /s/ Douglas F. Bauer |
|  |  | Douglas F. Bauer |
|  |  | Chief Executive Officer |
|  |  | *(Principal Executive Officer)* |
| Date: July 22, 2021 | By: | /s/ Glenn J. Keeler |
|  |  | Glenn J. Keeler |
|  |  | Chief Financial Officer |
|  |  | *(Principal Financial Officer)* |
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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 Homes, 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
   2. 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: July 22, 2021 | /s/ Douglas F. Bauer |
|  | Douglas F. Bauer |
|  | Chief Executive Officer (Principal Executive Officer) |

**Exhibit 31.2**

**SECTION 302 CERTIFICATION**

I, Glenn J. Keeler, certify that:

1. I have reviewed this report on Form 10-Q of Tri Pointe Homes, 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
   2. 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: July 22, 2021 | /s/ Glenn J. Keeler |
|  | Glenn J. Keeler |
|  | 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 Quarterly Report of Tri Pointe Homes, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2021 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: July 22, 2021 | /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 Quarterly Report of Tri Pointe Homes, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Glenn J. Keeler, 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: July 22, 2021 | /s/ Glenn J. Keeler |
|  | Glenn J. Keeler |
|  | Chief Financial Officer (Principal Financial Officer) |