

TRI Pointe Group, Inc.  
Form 10-Q  
October 25, 2017

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2017

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-35796

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TRI Pointe Group, Inc.  
(Exact Name of Registrant as Specified in Its Charter)

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

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19540 Jamboree Road, Suite 300  
Irvine, California 92612  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code (949) 438-1400

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

150,432,421 shares of common stock were issued and outstanding as of October 16, 2017.

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**EXPLANATORY NOTE**

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

TRI POINTE GROUP, INC.  
FORM 10-Q  
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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

TRI POINTE GROUP, INC.  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except share amounts)

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

See accompanying condensed notes to the unaudited consolidated financial statements.



TRI POINTE GROUP, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)  
(in thousands, except share and per share amounts)

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

See accompanying condensed notes to the unaudited consolidated financial statements.

TRI POINTE GROUP, INC.  
CONSOLIDATED STATEMENTS OF EQUITY  
(unaudited)  
(in thousands, except share amounts)

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



Balance at September 30,  
2017

See accompanying condensed notes to the unaudited consolidated financial statements.

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TRI POINTE GROUP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)  
(in thousands)

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

See accompanying condensed notes to the unaudited consolidated financial statements.



TRI POINTE GROUP, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

Organization

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

Basis of Presentation

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), as contained within the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"), for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. They should be read in conjunction with our consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016. In the opinion of management, all adjustments consisting of normal recurring adjustments, necessary for a fair presentation with respect to interim financial statements, have been included. The results for the three months and nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the full year due to seasonal variations and other factors. The consolidated financial statements include the accounts of TRI Pointe Group and its wholly owned subsidiaries, as well as other entities in which TRI Pointe Group has a controlling interest and variable interest entities ("VIEs") in which TRI Pointe Group is the primary beneficiary. The noncontrolling interests as of September 30, 2017 and December 31, 2016 represent the outside owners' interests in the Company's consolidated entities and the net equity of the VIE owners. All significant intercompany accounts have been eliminated upon consolidation.

Use of Estimates

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

Reclassifications

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

### Recently Issued Accounting Standards

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

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

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

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, ("ASU 2016-15"), Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which provides guidance on how certain cash receipts and cash payments are to be presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early

adoption is permitted. We are currently evaluating the impact that adoption of ASU 2016-15 may have on our consolidated financial statements and disclosures, however we do not believe the guidance will have a material impact on our financial statements upon adoption.

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

## 2. Segment Information

We operate two principal businesses: homebuilding and financial services.

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

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

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

The reportable segments follow the same accounting policies used for our consolidated financial statements, as described in Note 1, Organization and Summary of Significant Accounting Policies. Operational results of each reportable segment are not necessarily indicative of the results that would have 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		Nine Months Ended	
	September 30, 2017	2016	September 30, 2017	2016
Revenues				
Maracay Homes	\$78,167	\$68,024	\$204,981	\$161,318
Pardee Homes	231,376	188,148	495,452	547,311
Quadrant Homes	54,781	48,354	135,599	153,575
Trendmaker Homes	53,787	64,251	171,615	172,509
TRI Pointe Homes	239,110	167,769	524,159	452,553
Winchester Homes	60,219	45,248	149,065	143,361
Total homebuilding revenues	717,440	581,794	1,680,871	1,630,627
Financial services	295	235	881	762
Total	\$717,735	\$582,029	\$1,681,752	\$1,631,389
Income (loss) before income taxes				
Maracay Homes	\$6,431	\$4,385	\$14,429	\$9,544
Pardee Homes	82,407	37,508	128,570	165,718
Quadrant Homes	6,251	5,497	13,104	14,808
Trendmaker Homes	3,233	3,516	9,657	9,439
TRI Pointe Homes	24,382	11,723	39,779	34,651
Winchester Homes	4,284	1,692	6,903	6,345
Corporate	(10,151 )	(10,288 )	(32,868 )	(28,581 )
Total homebuilding income before income taxes	116,837	54,033	179,574	211,924
Financial services	1,564	1,410	3,559	3,825
Total	\$118,401	\$55,443	\$183,133	\$215,749

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

	September 30, 2017	December 31, 2016
Real estate inventories		
Maracay Homes	\$246,223	\$228,965
Pardee Homes	1,251,842	1,098,608
Quadrant Homes	281,272	221,386
Trendmaker Homes	213,179	211,035
TRI Pointe Homes	981,813	868,088
Winchester Homes	329,092	282,545
Total	\$3,303,421	\$2,910,627

Total assets		
Maracay Homes	\$274,263	\$255,466
Pardee Homes	1,338,304	1,201,302
Quadrant Homes	312,160	242,208
Trendmaker Homes	236,800	225,025
TRI Pointe Homes	1,162,397	1,052,400
Winchester Homes	351,717	305,379
Corporate	210,574	275,923
Total homebuilding assets	3,886,215	3,557,703
Financial services	9,851	6,937
Total	\$3,896,066	\$3,564,640

### 3. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Numerator:				
Net income available to common stockholders	\$72,264	\$ 34,834	\$ 113,171	\$ 137,310
Denominator:				
Basic weighted-average shares outstanding	151,214,746	160,614,055	155,238,206	161,456,520
Effect of dilutive shares:				
Stock options and unvested restricted stock units	915,081	653,454	697,870	459,832
Diluted weighted-average shares outstanding	152,129,827	161,267,509	155,936,076	161,916,352
Earnings per share				
Basic	\$0.48	\$ 0.22	\$0.73	\$ 0.85
Diluted	\$0.48	\$ 0.22	\$0.73	\$ 0.85
Antidilutive stock options and unvested restricted stock not included in diluted earnings per share	3,406,498	3,806,396	3,710,674	4,551,337

## 4. Receivables

Receivables consisted of the following (in thousands):

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

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

## 5. Real Estate Inventories

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

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

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

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

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

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



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

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

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

Real estate inventory impairments and land option abandonments

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

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

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

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

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

#### 6. Investments in Unconsolidated Entities

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



### Investments Held

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

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

### Unconsolidated Financial Information

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

Assets and liabilities of unconsolidated entities (in thousands):

	September 30, 2017	December 31, 2016
<b>Assets</b>		
Cash	\$ 11,895	\$ 9,796
Receivables	4,871	10,203
Real estate inventories	98,370	97,402
Other assets	924	1,087
Total assets	\$ 116,060	\$ 118,488
<b>Liabilities and equity</b>		
Accounts payable and other liabilities	\$ 8,612	\$ 12,844
Company's equity	17,616	17,546
Outside interests' equity	89,832	88,098
Total liabilities and equity	\$ 116,060	\$ 118,488

Results of operations from unconsolidated entities (in thousands):

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Net sales	\$5,404	\$4,619	\$15,722	\$12,516
Other operating expense	(3,532 )	(2,913 )	(9,714 )	(8,067 )
Other income	36	1	60	3
Net income	\$1,908	\$1,707	\$6,068	\$4,452
Company's equity in income of unconsolidated entities	\$1,351	\$1,227	\$4,557	\$3,427

### 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. Such deposits are recorded as land purchase and land option deposits under real estate inventories not owned in the

accompanying consolidated balance sheets.

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

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

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

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

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

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

#### 8. Goodwill and Other Intangible Assets

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

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

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

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





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

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

Remainder of 2017	\$ 133
2018	534
2019	534
2020	534
2021	534
Thereafter	2,221
Total	\$4,490

#### 9. Other Assets

Other assets consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
Prepaid expenses	\$ 19,117	\$ 24,495
Refundable fees and other deposits	18,921	17,731
Development rights, held for future use or sale	2,569	2,569
Deferred loan costs - unsecured revolving credit facility	3,655	2,101
Operating properties and equipment, net	10,696	10,884
Income tax receivable	1,181	—
Other	2,153	2,812
Total	\$ 58,292	\$ 60,592

#### 10. Accrued Expenses and Other Liabilities

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

	September 30, 2017	December 31, 2016
Accrued payroll and related costs	\$ 26,133	\$ 33,761
Warranty reserves (Note 13)	80,922	83,135
Estimated cost for completion of real estate inventories	84,793	59,531
Customer deposits	28,039	13,437
Income tax liability to Weyerhaeuser (Note 16)	7,200	8,589
Accrued income taxes payable	10,978	1,200
Liability for uncertain tax positions (Note 16)	1,416	—
Accrued interest	22,599	11,570
Other tax liability	36,657	34,961
Other	17,750	17,661
Total	\$ 316,487	\$ 263,845



## 11. Senior Notes, Unsecured Revolving Credit Facility and Seller Financed Loans

## Senior Notes

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

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

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

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

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

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

## Unsecured Revolving Credit Facility

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

	September 30, 2017	December 31, 2016
Unsecured revolving credit facility	\$200,000	\$200,000

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

Facility was \$200.0 million with an interest rate of 2.99% per annum and there was \$392.2 million of availability after considering the borrowing base provisions and outstanding letters of

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

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

#### Seller Financed Loans

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

	September 30, 2017	December 31, 2016
Seller financed loans \$		—\$ 13,726

Accrued interest on a seller financed loan outstanding as of December 31, 2016 was \$519,000.

#### Interest Incurred

During the three-month periods ended September 30, 2017 and 2016, the Company incurred interest of \$22.9 million and \$18.6 million, respectively, related to all debt during the period. Included in interest incurred was amortization of deferred financing and Senior Note discount costs of \$2.0 million and \$1.8 million for the three months ended September 30, 2017 and 2016, respectively. During the nine-month periods ended September 30, 2017 and 2016, the Company incurred interest of \$61.7 million and \$50.0 million, respectively, related to all debt during the period. Included in interest incurred was amortization of deferred financing and Senior Notes discount costs of \$5.6 million and \$4.7 million for the nine months ended September 30, 2017 and 2016, respectively. Accrued interest related to all outstanding debt at September 30, 2017 and December 31, 2016 was \$22.6 million and \$11.6 million, respectively.

#### Covenant Requirements

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

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

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

## 12. 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 September 30, 2017 and December 31, 2016, related to our financial instruments, measured at fair value on a recurring basis, is set forth below (in thousands):

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

The book value of the Senior Notes is net of discounts, excluding deferred loan costs of \$21.1 million and \$20.9 million as of September 30, 2017 and December 31, 2016, respectively. The estimated fair value of the Senior Notes at September 30, 2017 and December 31, 2016 is based on quoted market prices.

<sup>(2)</sup> The estimated fair value of the Credit Facility at September 30, 2017 and December 31, 2016 is based on a treasury curve analysis.

<sup>(3)</sup> The estimated fair value of the seller financed loan at December 31, 2016 is based on a treasury curve analysis.

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

### Fair Value of Nonfinancial Assets

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

	Nine Months Ended September 30, 2017		Year Ended December 31, 2016	
	Fair Value Impairment Charge Net of Impairment	Fair Value Impairment Charge Net of Impairment	Fair Value Impairment Charge Net of Impairment	Fair Value Impairment Charge Net of Impairment
Real estate inventories <sup>(1)</sup>	\$267	\$1,574	\$—	\$—

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

## 13. Commitments and Contingencies

### Legal Matters

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

We record a reserve for potential legal claims and regulatory matters when they are probable of occurring and a potential loss is reasonably estimable. We accrue for these matters based on facts and circumstances specific to each matter and revise these estimates when necessary. In view of the inherent difficulty of predicting outcomes of legal claims and related contingencies, we generally cannot predict their ultimate resolution, related timing or eventual loss. Accordingly, it is possible that the ultimate outcome of any matter, if in excess of a related accrual or if no accrual

was made, could be material to our financial statements. For matters as to which the Company believes a loss is probable and reasonably estimable, we had legal reserves of \$100,000 and \$225,000 as of September 30, 2017 and December 31, 2016, respectively.

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

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

#### Warranty

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

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

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

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

accompanying consolidated balance sheet.

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

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

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

#### Performance Bonds

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

#### 14. Stock-Based Compensation

##### 2013 Long-Term Incentive Plan

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

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

##### Converted Awards

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

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

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

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

##### Summary of Stock Option Activity

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

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

Options exercisable at September 30, 2017 1,851,395 13.39 4.9 2,322

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

#### Summary of Restricted Stock Unit Activity

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

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

On March 1, 2016, the Company granted an aggregate of 1,120,677 time-vested RSUs to employees and officers. The RSUs granted vest in equal installments annually on the anniversary of the grant date over a three year period. The fair value of each RSU granted on March 1, 2016 was measured using a price of \$10.49 per share, which was the closing stock price on the date of grant. Each award will be expensed on a straight-line basis over the vesting period. On March 1, 2016, the Company granted 297,426, 285,986 and 125,834 performance-based RSUs to the Company’s Chief Executive Officer, President, and Chief Financial Officer, respectively. The vesting, if at all, of these performance-based RSUs may range from 0% to 100% and will be based on the Company’s percentage attainment of specified threshold, target and maximum performance goals. The percentage of these performance-based RSUs that vest will be determined by comparing the Company’s total stockholder return (“TSR”) to the TSRs of a group of peer homebuilding companies. The performance period for these performance-based RSUs is January 1, 2016 to December 31, 2018. These performance-based RSUs will not vest if the Company’s total stockholder return from January 1, 2016 to December 31, 2018 is not a positive number, provided that the executive will thereafter become vested in the award units, or portion thereof, that would have otherwise vested on December 31, 2018 if on any day after December 31, 2018 and on or before December 31, 2020, the Company’s total stockholder return is greater than zero and the executive is employed by the Company on that date. If the performance-based RSUs have not vested on or before December 31, 2020, such performance-based RSUs shall be cancelled and forfeited for no consideration. The fair value of these performance-based RSUs was determined to be \$4.76 per share based on a Monte Carlo simulation. Each award will be expensed over the requisite service period.

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

On February 27, 2017, the Company granted an aggregate of 990,279 time-vested RSUs to employees and officers. The RSUs granted vest in equal installments annually on the anniversary of the grant date over a three year

period. The fair value of each RSU granted on February 27, 2017 was measured using a price of \$12.10 per share, which was the closing stock price on the date of grant. Each award will be expensed on a straight-line basis over the vesting period.

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

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

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

#### 15. Stock Repurchase Program

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

#### 16. Income Taxes

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



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

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

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

#### 17. Related Party Transactions

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

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

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

#### 18. Supplemental Disclosure to Consolidated Statements of Cash Flows

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

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

## 19. Supplemental Guarantor Information

### 2021 Notes and 2027 Notes

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

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

### 2019 Notes and 2024 Notes

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

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

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

## Condensed Consolidating Balance Sheet (in thousands):

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

## Condensed Consolidating Balance Sheet (in thousands):

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

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

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

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

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

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

Nine Months Ended September 30, 2017

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



Condensed Consolidating Statement of Operations (in thousands):

Nine Months Ended September 30, 2016

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

Condensed Consolidating Statement of Cash Flows (in thousands):

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

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

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

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

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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

Factors listed in this section—as well as other factors not included—may cause actual results to differ significantly from the forward-looking statements included in this Quarterly Report on Form 10-Q. There is no guarantee that any of the events anticipated by the forward-looking statements in this Quarterly Report on Form 10-Q will occur, or if any of the events occurs, there is no guarantee what effect it will have on our operations, financial condition, or share price. We undertake no, and hereby disclaim any, obligation to update or revise any forward-looking statements, unless required by law. However, we reserve the right to make such updates or revisions from time to time by press release, periodic report, or other method of public disclosure without the need for specific reference to this Quarterly Report on Form 10-Q. No such update or revision shall be deemed to indicate that other statements not addressed by such update or revision remain correct or create an obligation to provide any other updates or revisions.

Forward-Looking Statements

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

Risks, Uncertainties and Assumptions

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

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



risks related to unauthorized access to our computer systems, theft of our homebuyers' confidential information or other forms of cyber-attack; and other factors described in "Risk Factors."

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

#### Overview and Outlook

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

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

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

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

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

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

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





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

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

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

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

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

Maracay Homes' backlog dollar value increased 7% compared to the prior year due to a 16% increase in average sales price, offset by a 7% decrease in units. The increase in average sales price was due to a product mix shift that included a greater proportion of move-up and luxury product compared to the prior year. Pardee Homes' backlog dollar value

increased 139% due to an increase in both backlog units and average selling price. The increase in backlog units was due to the 49% increase in orders during the quarter while the increase in average selling price was due to increased pricing power in our markets and a higher end product mix with higher price points. Quadrant Homes' backlog dollar value increased 92% as a result of an increase in backlog units and average sales price. The increase in backlog units directly relates to the 71% increase in orders during the quarter and the increase in average sales price was related to a higher mix of homes in backlog from the core Seattle markets of King and Snohomish counties, which have higher price points. Trendmaker Homes' backlog dollar value increased 9% primarily due to a 15% increase in backlog units. TRI Pointe Homes' backlog dollar value increased 51%

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

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

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

Home sales revenue increased \$70.0 million, or 12%, to \$648.6 million for the three months ended September 30, 2017. The increase was comprised of (i) \$52.2 million related to an increase in homes delivered to 1,111 for the three months ended September 30, 2017 from 1,019 in the prior year period, and (ii) a \$16,000, or 3%, increase in the average sales price of homes delivered to \$584,000 for the three months ended September 30, 2017, from \$568,000 in the prior year period.

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

## Homebuilding Gross Margins (dollars in thousands)

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

<sup>(1)</sup> Non-GAAP financial measure (as discussed below).

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

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

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

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

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

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

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

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