TRI Pointe Group, Inc.
Form 10-Q
July 27, 2018

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

FORM 10-Q

(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-35796

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

152,037,568 shares of common stock were issued and outstanding as of July 16, 2018.

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
INDEX
June 30, 2018

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2018 (unaudited)	December 31, 2017
Assets		
Cash and cash equivalents	$239,906	$282,914
Receivables	59,611	125,600
Real estate inventories	3,247,786	3,105,553
Investments in unconsolidated entities	4,169	5,870
Goodwill and other intangible assets, net	160,694	160,961
Deferred tax assets, net	66,414	76,413
Other assets	94,105	48,070
Total assets	$3,872,685	$3,805,381
Liabilities		
Accounts payable	$88,936	$72,870
Accrued expenses and other liabilities	298,077	330,882
Senior notes, net	1,453,366	1,471,302
Total liabilities	1,840,379	1,875,054
Commitments and contingencies (Note 13)		
Equity		
Stockholders' Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized; no shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	—	—
Common stock, $0.01 par value, 500,000,000 shares authorized; 152,027,014 and 151,162,999 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	1,520	1,512
Additional paid-in capital	796,746	793,980
Retained earnings	1,233,436	1,134,230
Total stockholders' equity	2,031,702	1,929,722
Noncontrolling interests	604	605
Total equity	2,032,306	1,930,327
Total liabilities and equity	$3,872,685	$3,805,381

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Homebuilding:				
Home sales revenue	$768,795	$ 568,816	$1,351,367	$ 960,820
Land and lot sales revenue	1,518	865	1,741	1,443
Other operations revenue	599	600	1,197	1,168
Total revenues	770,912	570,281	1,354,305	963,431
Cost of home sales	604,096	454,241	1,054,598	772,645
Cost of land and lot sales	1,426	644	1,929	1,298
Other operations expense	589	591	1,191	1,151
Sales and marketing	45,744	32,330	84,027	59,030
General and administrative	36,483	33,688	73,297	68,337
Homebuilding income from operations	82,574	48,787	139,263	60,970
Equity in income (loss) of unconsolidated entities	69	1,508	(399)	1,646
Other (expense) income, net	(73)	44	98	121
Homebuilding income before income taxes	82,570	50,339	138,962	62,737
Financial Services:				
Revenues	391	345	674	586
Expenses	129	77	266	151
Equity in income of unconsolidated entities	1,984	1,294	2,986	1,560
Financial services income before income taxes	2,246	1,562	3,394	1,995
Income before income taxes	84,816	51,901	142,356	64,732
Provision for income taxes	(21,136)	(19,098)	(35,796)	(23,712)
Net income	63,680	32,803	106,560	41,020
Net income attributable to noncontrolling interests	—	(89)	—	(113)
Net income available to common stockholders	$63,680	$ 32,714	$106,560	$ 40,907
Earnings per share				
Basic	$0.42	$ 0.21	$0.70	$ 0.26
Diluted	$0.42	$ 0.21	$0.70	$ 0.26
Weighted average shares outstanding				
Basic	151,983,886	155,603,699	151,725,651	157,335,296
Diluted	153,355,965	156,140,543	153,067,342	157,924,561

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	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2016	158,626,229	$1,586	$880,822	$947,039	$1,829,447	$ 19,063	$1,848,510
Net income	—	—	—	187,191	187,191	360	187,551
Shares issued under share-based awards	1,531,475	16	12,275	—	12,291	—	12,291
Minimum tax withholding paid on behalf of employees for restricted stock units	—	—	(2,896)	—	(2,896)	—	(2,896)
Stock-based compensation expense	—	—	15,906	—	15,906	—	15,906
Share repurchases	(8,994,705)	(90)	(112,127)	—	(112,217)	—	(112,217)
Distributions to noncontrolling interests, net	—	—	—	—	—	(1,333)	(1,333)
Net effect of consolidations, de-consolidations and other transactions	—	—	—	—	—	(17,485)	(17,485)
Balance at December 31, 2017	151,162,999	1,512	793,980	1,134,230	1,929,722	605	1,930,327
Cumulative effect of accounting change (Note 1)	—	—	—	(7,354)	(7,354)	—	(7,354)
Net income	—	—	—	106,560	106,560	—	106,560
Shares issued under share-based awards	864,015	8	1,625	—	1,633	—	1,633
Minimum tax withholding paid on behalf of employees for restricted stock units	—	—	(6,049)	—	(6,049)	—	(6,049)
Stock-based compensation expense	—	—	7,190	—	7,190	—	7,190
Distributions to noncontrolling interests, net	—	—	—	—	—	(1)	(1)
Balance at June 30, 2018	152,027,014	$1,520	$796,746	$1,233,436	$2,031,702	$ 604	$2,032,306

See accompanying condensed notes to the unaudited consolidated financial statements.

- 5 -

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

	Six Months Ended June 30, 2018	2017
Cash flows from operating activities:		
Net income	$106,560	$41,020
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	12,579	1,698
Equity in income of unconsolidated entities, net	(2,587)	(3,206)
Deferred income taxes, net	12,428	5,641
Amortization of stock-based compensation	7,190	7,744
Charges for impairments and lot option abandonments	857	828
Changes in assets and liabilities:		
Real estate inventories	(188,407)	(298,007)
Receivables	65,989	9,717
Other assets	(2,792)	4,638
Accounts payable	16,066	(7,001)
Accrued expenses and other liabilities	(32,805)	14,171
Returns on investments in unconsolidated entities, net	4,873	2,057
Net cash used in operating activities	(49)	(220,700)
Cash flows from investing activities:		
Purchases of property and equipment	(15,682)	(1,793)
Proceeds from sale of property and equipment	3	6
Investments in unconsolidated entities	(1,178)	(462)
Net cash used in investing activities	(16,857)	(2,249)
Cash flows from financing activities:		
Borrowings from debt	—	450,000
Repayment of debt	(21,685)	(213,726)
Debt issuance costs	—	(5,906)
Distributions to noncontrolling interests	(1)	(987)
Proceeds from issuance of common stock under share-based awards	1,633	2,449
Minimum tax withholding paid on behalf of employees for share-based awards	(6,049)	(2,896)
Share repurchases	—	(99,697)
Net cash (used in) provided by financing activities	(26,102)	129,237
Net decrease in cash and cash equivalents	(43,008)	(93,712)
Cash and cash equivalents - beginning of period	282,914	208,657
Cash and cash equivalents - end of period	$239,906	$114,945

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 in Arizona, Pardee Homes in California and Nevada, Quadrant Homes in Washington, Trendmaker Homes in Texas, TRI Pointe Homes in California and Colorado and Winchester Homes in Maryland and Virginia.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), as contained within the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"), for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. They should be read in conjunction with our consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017. In the opinion of management, all adjustments consisting of normal recurring adjustments, necessary for a fair presentation with respect to interim financial statements, have been included. The results for the three and six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the full year due to seasonal variations and other factors.

The consolidated financial statements include the accounts of TRI Pointe Group and its wholly owned subsidiaries, as well as other entities in which TRI Pointe Group has a controlling interest and variable interest entities ("VIEs") in which TRI Pointe Group is the primary beneficiary. The noncontrolling interests as of June 30, 2018 and December 31, 2017 represent the outside owners' interests in the Company's consolidated entities. All significant intercompany accounts have been eliminated upon consolidation.

Use of Estimates

Our financial statements have been prepared in accordance with GAAP. The preparation of these financial statements requires our management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from our estimates.

Significant Accounting Policies Update

Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Codified as "ASC 606"). ASC 606 supersedes the revenue-recognition requirements in ASC Topic 605, Revenue Recognition, most industry-specific guidance throughout the industry topics of the accounting standards codification, and some cost guidance related to construction-type and production-type contracts. The core principle of ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognize revenue when (or as) the entity satisfies a performance obligation. We have adopted and applied this updated revenue recognition policy as of January 1, 2018. See Adoption of New Accounting Standards below.

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

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

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

Real Estate Inventories and Cost of Sales

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

Recently Issued Accounting Standards Not Yet Adopted

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, (Codified as “ASC 842”), which requires an entity to recognize assets and liabilities on the balance sheet for the rights and obligations created by leases with durations of greater than 12 months, but record expenses on the statements of operations in a manner similar to current accounting. The guidance also requires more disclosures about leases in the notes to consolidated financial statements. ASC 842 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and, at that time, we will adopt the new standard using a modified retrospective approach. We are currently evaluating the impact that the adoption of ASC 842 may have on our consolidated financial statements and disclosures.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment (“ASU 2017-04”), which removes the requirement to perform a hypothetical purchase price allocation to 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.

Adoption of New Accounting Standards

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

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

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

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

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

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)
Statements of Operations						
Revenues						
Home sales	$768,795	$768,550	$ 245	$1,351,367	$1,351,603	$ (236)
Costs and expenses						
Cost of home sales	604,096	613,702	(9,606)	1,054,598	1,071,841	(17,243)
Sales and marketing	45,744	38,044	7,700	84,027	70,840	13,187
Provision for income taxes	(21,136)	(20,600)	536	(35,796)	(34,835)	961
Net income	63,680	62,065	1,615	106,560	103,701	2,859
Diluted earnings per share	$0.42	$0.40	$ 0.02	$0.70	$0.68	$ 0.02

	As of June 30, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)
Balance Sheet			
Assets			
Real estate inventories	$3,247,786	$3,296,309	$ (48,523)
Deferred tax assets, net	66,414	63,025	3,389
Other assets	94,105	51,766	42,339
Liabilities			
Accrued expenses and other liabilities	298,077	297,615	462
Equity			
Retained earnings	1,233,436	1,236,693	(3,257)

Contracts with Customers

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

In addition to our core homebuilding operations, we undertake service operations with customers in the form of our financial services reportable segment (“TRI Pointe Solutions”), which is comprised of our mortgage financing operations, title services operations and property and casualty insurance agency operations. Our mortgage financing operation (“TRI Pointe Connect”) can act as a preferred mortgage broker to our homebuyers in all of the markets in which we operate. TRI Pointe Connect was formed as a joint venture with an established mortgage lender and is accounted for under the equity method of accounting. Our title services operation (“TRI Pointe Assurance”) provides title examinations for our homebuyers in 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. Our property and casualty insurance agency operations (“TRI Pointe Advantage”), which launched in early 2018, is a wholly-owned subsidiary of TRI Pointe that provides property and casualty insurance agency services that help facilitate the closing process in all of the markets in which we operate.

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

Disaggregation of Revenues

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

Home sales revenue

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

Land and lot sales revenue

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

Other operations revenue

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

Financial services revenues

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

Mortgage financing operations

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

Title services operations

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

Property and casualty insurance agency operations

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

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 these factors, our homebuilding operations are comprised of the following six reportable segments: Maracay, consisting of operations in Arizona; Pardee Homes, consisting of operations in California and Nevada; Quadrant Homes, consisting of operations in Washington; Trendmaker Homes, consisting of operations in Texas; TRI Pointe Homes, consisting of operations in California and Colorado; and Winchester Homes, consisting of operations in Maryland and Virginia.

Our TRI Pointe Solutions financial services operation is a reportable segment and is comprised of our TRI Pointe Connect mortgage financing operations, our TRI Pointe Assurance title services operations, and our TRI Pointe Advantage property and casualty insurance agency operations. For further details, see Note 1, Organization, Basis of Presentation and Summary of Significant Accounting Policies.

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues				
Maracay	$56,949	$75,754	$115,404	$126,814
Pardee Homes	243,286	180,377	423,756	264,076
Quadrant Homes	65,404	40,266	127,307	80,818
Trendmaker Homes	77,716	65,466	119,124	117,828
TRI Pointe Homes	255,642	154,213	446,062	285,049
Winchester Homes	71,915	54,205	122,652	88,846
Total homebuilding revenues	770,912	570,281	1,354,305	963,431
Financial services	391	345	674	586
Total	$771,303	$570,626	$1,354,979	$964,017
Income (loss) before income taxes				
Maracay	$5,014	$6,241	$9,405	$7,998
Pardee Homes	46,917	36,270	86,108	46,163
Quadrant Homes	7,797	3,109	15,937	6,853
Trendmaker Homes	6,228	4,542	6,598	6,424
TRI Pointe Homes	24,175	8,958	38,706	15,397
Winchester Homes	4,179	2,219	5,786	2,619
Corporate	(11,740)	(11,000)	(23,578)	(22,717)
Total homebuilding income before income taxes	82,570	50,339	138,962	62,737
Financial services	2,246	1,562	3,394	1,995
Total	$84,816	$51,901	$142,356	$64,732

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

	June 30, 2018	December 31, 2017
Real estate inventories		
Maracay	$275,689	$243,883
Pardee Homes	1,331,778	1,245,659
Quadrant Homes	297,824	257,887
Trendmaker Homes	225,287	204,926
TRI Pointe Homes	811,746	855,727
Winchester Homes	305,462	297,471
Total	$3,247,786	$3,105,553
Total assets		
Maracay	$296,679	$268,866
Pardee Homes	1,444,940	1,346,296
Quadrant Homes	325,764	312,803
Trendmaker Homes	253,560	224,995
TRI Pointe Homes	989,955	1,062,920
Winchester Homes	340,160	313,921
Corporate	206,453	262,740
Total homebuilding assets	3,857,511	3,792,541
Financial services	15,174	12,840
Total	$3,872,685	$3,805,381

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net income available to common stockholders	$63,680	$ 32,714	$106,560	$ 40,907
Denominator:				
Basic weighted-average shares outstanding	151,983,886	155,603,699	151,725,651	157,335,296
Effect of dilutive shares:				
Stock options and unvested restricted stock units	1,372,079	536,844	1,341,691	589,265
Diluted weighted-average shares outstanding	153,355,965	156,140,543	153,067,342	157,924,561
Earnings per share				
Basic	$0.42	$ 0.21	$0.70	$ 0.26
Diluted	$0.42	$ 0.21	$0.70	$ 0.26
Antidilutive stock options and unvested restricted stock units not included in diluted earnings per share	584,405	3,889,923	916,444	3,862,763

4. Receivables

Receivables consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Escrow proceeds and other accounts receivable, net	$24,323	$89,783
Warranty insurance receivable (Note 13)	35,288	35,817
Total receivables	$59,611	$125,600

Receivables are evaluated for collectability and allowances for potential losses are established or maintained on applicable receivables when collection becomes doubtful. Receivables were net of allowances for doubtful accounts of $501,000 and $330,000 as of June 30, 2018 and December 31, 2017, respectively.

5. Real Estate Inventories

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

	June 30, 2018	December 31, 2017
Real estate inventories owned:		
Homes completed or under construction	$1,132,976	$793,685
Land under development	1,601,462	1,934,556
Land held for future development	200,627	138,651
Model homes	248,201	211,658
Total real estate inventories owned	3,183,266	3,078,550
Real estate inventories not owned:		
Land purchase and land option deposits	64,520	27,003
Total real estate inventories not owned	64,520	27,003
Total real estate inventories	$3,247,786	$3,105,553

Homes completed or under construction is comprised of costs associated with homes in various stages of construction and includes direct construction and related land acquisition and land development costs. Land under development primarily consists of land acquisition and land development costs, which include capitalized interest and real estate taxes, associated with land undergoing improvement activity. Land held for future development principally reflects land acquisition and land development costs related to land where development activity has not yet begun or has been suspended, but is expected to occur in the future. The real estate inventories owned balance was impacted by our one-time cumulative adjustment entry resulting from the adoption of ASC 606. As a result of our cumulative adjustment, the December 31, 2017 balance decreased by $49.3 million on January 1, 2018. For further details, see Note 1, Organization, Basis of Presentation and Summary of Significant Accounting Policies.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest incurred	$21,627	$19,931	$43,147	$38,804
Interest capitalized	(21,627)	(19,931)	(43,147)	(38,804)
Interest expensed	$—	$—	$—	$—
Capitalized interest in beginning inventory	$183,626	$166,515	$176,348	$157,329
Interest capitalized as a cost of inventory	21,627	19,931	43,147	38,804
Interest previously capitalized as a cost of inventory, included in cost of sales	(19,664)	(13,185)	(33,906)	(22,872)
Capitalized interest in ending inventory	$185,589	$173,261	$185,589	$173,261

Interest is capitalized to real estate inventory during development and other qualifying activities. During all periods presented, we capitalized all interest incurred to real estate inventory in accordance with ASC Topic 835, Interest, as our qualified assets exceeded our debt. Interest that is capitalized to real estate inventory is included in cost of home sales or cost of land and lot sales as related units or lots are delivered. Interest that is expensed as incurred is included in other income, net.

Real Estate Inventory Impairments and Land Option Abandonments

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Real estate inventory impairments	$—	$234	$—	$267
Land and lot option abandonments and pre-acquisition charges	609	273	857	561
Total	$609	$507	$857	$828

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

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

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

6. Investments in Unconsolidated Entities

As of June 30, 2018, we held equity investments in four active homebuilding partnerships or limited liability companies and one financial services limited liability company. Our participation in these entities may be as a developer, a builder, or an investment partner. Our ownership percentage varies from 5% to 65%, depending on the investment, with no controlling interest held in any of these investments.

- 15 -

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):

	June 30, 2018	December 31, 2017
Limited liability company interests	$1,474	$ 2,687
General partnership interests	2,695	3,183
Total	$4,169	$ 5,870

Unconsolidated Financial Information

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

Assets and liabilities of unconsolidated entities (in thousands):

	June 30, 2018	December 31, 2017
Assets		
Cash	$12,207	$11,678
Receivables	4,394	6,564
Real estate inventories	97,818	99,997
Other assets	866	936
Total assets	$115,285	$119,175
Liabilities and equity		
Accounts payable and other liabilities	$8,165	$12,208
Company’s equity	4,169	5,870
Outside interests' equity	102,951	101,097
Total liabilities and equity	$115,285	$119,175

Results of operations from unconsolidated entities (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales	$9,325	$5,228	$13,715	$10,318
Other operating expense	(7,272)	(3,579)	(10,559)	(6,182)
Other income	21	22	84	24
Net income	$2,074	$1,671	$3,240	$4,160
Company’s equity in income of unconsolidated entities	$2,053	$2,802	$2,587	$3,206

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.

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

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

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

	June 30, 2018			December 31, 2017		
	Deposits	Remaining Purchase Price	Consolidated Inventory Held by VIEs	Deposits	Remaining Purchase Price	Consolidated Inventory Held by VIEs
Consolidated VIEs	$—	$—	$ —	$—	$—	$ —
Unconsolidated VIEs	32,874	299,711	N/A	3,418	112,590	N/A
Other land option agreements	31,646	372,354	N/A	23,585	269,349	N/A
Total	$64,520	$672,065	$ —	$27,003	$381,939	$ —

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

In addition to the deposits presented in the table above, our exposure to loss related to our land and lot option contracts consisted of capitalized pre-acquisition costs of $11.3 million and $4.5 million as of June 30, 2018 and December 31, 2017, respectively. These pre-acquisition costs were included in real estate inventories as land under development on our consolidated balance sheets.

8. Goodwill and Other Intangible Assets

As of June 30, 2018 and December 31, 2017, $139.3 million of goodwill is included in goodwill and other intangible assets, net on each of the consolidated balance sheets. The Company's goodwill balance is included in the TRI Pointe Homes reporting segment in Note 2, Segment Information.

We have two intangible assets as of June 30, 2018, comprised of an existing trade name from the acquisition of Maracay in 2006, which has a 20 year useful life, and a TRI Pointe Homes trade name resulting from the acquisition of Weyerhaeuser Real Estate Company ("WRECO") in 2014, which has an indefinite useful life.

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

	June 30, 2018			December 31, 2017		
	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	(6,589)	21,390	27,979	(6,322)	21,657
Total	$167,283	$ (6,589)	$160,694	$167,283	$ (6,322)	$160,961

The remaining useful life of our amortizing intangible asset related to the Maracay trade name was 7.7 and 8.2 years as of June 30, 2018 and December 31, 2017, respectively. The net carrying amount related to this intangible asset was $4.1 million and $4.4 million as of June 30, 2018 and December 31, 2017, respectively. Amortization expense related to this intangible asset was $134,000 for each of the three-month periods ended June 30, 2018 and 2017, respectively, and $267,000 for each of the six-month periods ended June 30, 2018 and 2017, respectively. Amortization of this intangible was charged to sales and marketing expense. Our $17.3 million indefinite life intangible asset related to the TRI Pointe Homes trade name is not amortizing. All trade names are evaluated for impairment on an annual basis or more frequently if indicators of impairment exist.

Expected amortization of our intangible asset related to Maracay for the remainder of 2018, the next four years and thereafter is (in thousands):

Remainder of 2018	$267
2019	534
2020	534
2021	534
2022	534
Thereafter	1,687
Total	$4,090

9. Other Assets

Other assets consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Prepaid expenses	$17,842	$ 13,040
Refundable fees and other deposits	13,614	16,012
Development rights, held for future use or sale	2,569	2,569
Deferred loan costs - unsecured revolving credit facility	2,926	3,427
Operating properties and equipment, net	54,094	10,528
Other	3,060	2,494
Total	$94,105	$ 48,070

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

10. Accrued Expenses and Other Liabilities

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

	June 30, 2018	December 31, 2017
Accrued payroll and related costs	$24,232	$36,863
Warranty reserves (Note 13)	72,342	69,373
Estimated cost for completion of real estate inventories	102,176	105,864
Customer deposits	28,947	19,568
Income tax liability to Weyerhaeuser	8,321	7,706
Accrued income taxes payable	—	30,672
Liability for uncertain tax positions (Note 15)	1,458	1,458
Accrued interest	10,861	11,014
Accrued insurance expense	4,124	1,187
Other tax liability	28,297	33,671
Other	17,319	13,506
Total	$298,077	$330,882

11. Senior Notes and Unsecured Revolving Credit Facility

Senior Notes

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

	June 30, 2018	December 31, 2017
4.375% Senior Notes due June 15, 2019	$428,315	$450,000
4.875% Senior Notes due July 1, 2021	300,000	300,000
5.875% Senior Notes due June 15, 2024	450,000	450,000
5.250% Senior Notes due June 1, 2027	300,000	300,000
Discount and deferred loan costs	(24,949)	(28,698)
Total	$1,453,366	$1,471,302

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

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

TRI Pointe Group and its 100% owned subsidiary TRI Pointe Homes, Inc. ("TRI Pointe Homes") are co-issuers of the 4.375% Senior Notes due 2019 (the "2019 Notes") and the 5.875% Senior Notes due 2024 (the "2024 Notes"). The 2019 Notes were issued at 98.89% of their aggregate principal amount and the 2024 Notes were issued at 98.15% of their aggregate principal amount. The net proceeds from the offering were $861.3 million, after debt issuance costs and discounts. The 2019 Notes and 2024 Notes mature on June 15, 2019 and June 15, 2024, respectively. Interest is payable semiannually in arrears on June 15 and December 15. During the three months ended June 30, 2018, we repurchased and cancelled an aggregate principal amount of $21.7 million of the 2019 Notes.

As of June 30, 2018, there was $17.3 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 $10.4 million and $10.6 million as of June 30, 2018 and December 31, 2017, respectively.

Unsecured Revolving Credit Facility

On June 20, 2017, the Company modified its existing unsecured revolving credit facility (the "Credit Facility") to extend the maturity date by two years to May 18, 2021, while decreasing the total commitments under the Credit Facility to $600 million from $625 million. In addition, the Credit Facility was modified to give the Company the option to make offers to the lenders to extend the maturity date of the Credit Facility in twelve-month increments, subject to the satisfaction of certain conditions. The Credit Facility contains a sublimit of $75 million for letters of credit. The Company may borrow under the Credit Facility in the ordinary course of business to fund its operations, including its land acquisition, land development and homebuilding activities. Borrowings under the Credit Facility will be governed by, among other things, a borrowing base. Interest rates on borrowings under the Credit Facility will be based on either a daily Eurocurrency base rate or a Eurocurrency rate, in either case, plus a spread ranging from 1.25% to 2.00%, depending on the Company's leverage ratio. As of June 30, 2018, we had no outstanding indebtedness under the Credit Facility and $586.8 million of availability after considering the borrowing base provisions and outstanding letters of credit. As of June 30, 2018, there was $2.9 million of capitalized debt financing costs, included in other assets on our consolidated balance sheet, related to the Credit Facility that will amortize over the life of the Credit Facility, maturing on May 18, 2021. Accrued interest, including loan commitment fees, related to the Credit Facility was $455,000 and $426,000 as of June 30, 2018 and December 31, 2017, respectively.

At June 30, 2018 and December 31, 2017, we had outstanding letters of credit of $13.2 million and $7.7 million, respectively. These letters of credit were issued to secure various financial obligations. We believe it is not probable that any outstanding letters of credit will be drawn upon.

Interest Incurred

During the three months ended June 30, 2018 and 2017, the Company incurred interest of $21.6 million and $19.9 million, respectively, related to all debt during the period. Included in interest incurred was amortization of deferred financing and Senior Note discount costs of $2.1 million and $1.8 million for the three months ended June 30, 2018 and 2017, respectively. During the six-month periods ended June 30, 2018 and 2017, the Company incurred interest of $43.1 million and $38.8 million, respectively, related to all debt during the period. Included in interest incurred was amortization of deferred financing and Senior Notes discount costs of $4.1 million and $3.7 million for the six months ended June 30, 2018 and 2017, respectively. Accrued interest related to all outstanding debt at June 30, 2018 and December 31, 2017 was $10.9 million and $11.0 million, respectively.

Covenant Requirements

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

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

The Company was in compliance with all applicable financial covenants as of June 30, 2018 and December 31, 2017.

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 June 30, 2018 and December 31, 2017, related to our financial instruments, measured at fair value on a recurring basis, is set forth below (in thousands):

		June 30, 2018		December 31, 2017	
	Hierarchy	Book Value	Fair Value	Book Value	Fair Value
Senior Notes [(1)]	Level 2	$1,470,664	$1,450,708	$1,491,229	$1,552,335

(1) The book value of the Senior Notes is net of discounts, excluding deferred loan costs of $17.3 million and $19.9 million as of June 30, 2018 and December 31, 2017, respectively. The estimated fair value of the Senior Notes at June 30, 2018 and December 31, 2017 is based on quoted market prices.

At June 30, 2018 and December 31, 2017, 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):

	Six Months Ended June 30, 2018		Year Ended December 31, 2017	
	Impairment Charge	Fair Value Net of Impairment	Impairment Charge	Fair Value Net of Impairment
Real estate inventories [(1)]	$ —	$ —	$854	$ 12,950

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

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

On April 3, 2017, Pardee Homes was named as a defendant in a lawsuit filed in San Diego County Superior Court by Scripps Health ("Scripps") related to the April 1989 sale by Pardee Homes of real property located in Carmel Valley, California to Scripps pursuant to a purchase agreement dated December 18, 1987 (as amended, the "Purchase

Agreement"). In March 2003, Scripps contacted Pardee Homes and alleged Pardee Homes had breached a covenant in the Purchase Agreement by failing to record a restriction against the development of the surrounding property then owned by Pardee Homes for medical office use. In November 2003, the parties entered into a tolling agreement, pursuant to which the parties agreed to toll any applicable statutes of limitation from November 3, 2003 until the expiration of the agreement. The tolling agreement did not revive any cause of action already time barred by a statute of limitation as of November 3, 2003. The tolling agreement was terminated as of February 21, 2017. Pardee Homes became an indirect, wholly owned subsidiary of TRI Pointe on July 7, 2014 in connection with TRI Pointe's acquisition of WRECO.

We intend to vigorously defend the action, and intend to continue challenging Scripps' claims. On May 18, 2018, Pardee Homes filed a motion for summary judgment in the action, which currently has a hearing date of September 14, 2018. Although we cannot predict or determine the timing or final outcome of the lawsuit or the effect that any adverse findings or determinations may have on us, we believe Scripps has no actionable claims against Pardee Homes and that this dispute will not have a material impact on our business, liquidity, financial condition and results of operations. An unfavorable determination could result in the payment by us of monetary damages, which could be significant. The complaint does not indicate the amount of relief sought, and an estimate of possible loss or range of loss cannot presently be made with respect to this matter. No reserve with respect to this matter has been recorded on our consolidated financial statements.

In April 2018, the California Regional Water Quality Control Board, San Diego Region ("RWQCB"), notified Pardee Homes of its intention to assess a penalty for alleged violations of a General Permit for Storm Water Discharges Associated with Construction and Land Disturbance Activities (the "General Permit"). The alleged violations of the General Permit related to the discharge of stormwater during heavy rains in 2017 in connection with the development of a community in San Diego County, California. On June 4, 2018, Pardee Homes reached a settlement with the RWQCB staff and agreed to pay a fine in the sum of $291,286.

Warranty

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

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

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

We also record expected recoveries from insurance carriers based on actual insurance claims made and actuarially determined amounts that depend on various factors, including the above-described reserve estimates, our insurance policy coverage limits for the applicable policy years and historical recovery rates. Because of the inherent uncertainty and variability in these assumptions, our actual insurance recoveries could differ significantly from amounts currently estimated. Outstanding warranty insurance receivables were $35.3 million and $35.8 million as of June 30, 2018 and December 31, 2017, respectively. Warranty insurance receivables are recorded in receivables on the accompanying consolidated balance sheet.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Warranty reserves, beginning of period	$70,482	$80,953	$69,373	$83,135
Warranty reserves accrued	6,666	3,794	11,412	5,674
Adjustments to pre-existing reserves	—	699	—	621
Warranty expenditures	(4,806)	(5,318)	(8,443)	(9,302)
Warranty reserves, end of period	$72,342	$80,128	$72,342	$80,128

Performance Bonds

We obtain surety bonds in the normal course of business to ensure completion of certain infrastructure improvements of our projects. The beneficiaries of the bonds are various municipalities. As of June 30, 2018 and December 31, 2017, the Company had outstanding surety bonds totaling $724.4 million and $627.1 million, respectively. As of June 30, 2018 and December 31, 2017, our estimated cost to complete obligations related to these surety bonds was $430.2 million and $537.4 million, respectively.

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 June 30, 2018, there were 6,454,995 shares available for future grant under the 2013 Incentive Plan.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Total stock-based compensation	$3,720	$3,903	$7,190	$7,744

Stock-based compensation is charged to general and administrative expense on the accompanying consolidated statements of operations. As of June 30, 2018, total unrecognized stock-based compensation related to all stock-based awards was $24.5 million and the weighted average term over which the expense was expected to be recognized was 2.0 years.

Summary of Stock Option Activity

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

	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2017	1,154,658	$ 14.16	4.9	$ 4,350
Granted	—	—	—	—
Exercised	(154,993)	$ 12.33	—	—
Forfeited	(18,154)	$ 11.77	—	—
Options outstanding at June 30, 2018	981,511	$ 14.49	4.7	$ 2,028
Options exercisable at June 30, 2018	981,511	$ 14.49	4.7	$ 2,028

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 six months ended June 30, 2018:

	Restricted Stock Units	Weighted Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value (in thousands)
Nonvested RSUs at December 31, 2017	4,307,592	$ 9.80	$ 77,192
Granted	1,124,554	$ 15.76	—
Vested	(1,102,727)	$ 12.47	—
Forfeited	(987,808)	$ 9.37	—
Nonvested RSUs at June 30, 2018	3,341,611	$ 11.05	$ 54,669

On April 30, 2018, the Company granted an aggregate of 40,910 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 2019 Annual Meeting of Stockholders. The fair value of each RSU granted on April 30, 2018 was measured using a price of $17.11 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 May 7, 2018 and February 22, 2018, the Company granted an aggregate of 4,258 and 633,107, respectively, of time-vested RSUs to certain employees and officers. The RSUs granted vest in equal installments annually on the anniversary of the grant date over a three year period. The fair value of each RSU granted on May 7, 2018 and February 22, 2018 was measured using a price of $17.61 and $16.94 per share, respectively, which was the closing stock price on the date of grant. Each award will be expensed on a straight-line basis over the vesting period.

On February 22, 2018, the Company granted 184,179, 177,095, and 85,005 performance-based RSUs to the Company’s Chief Executive Officer, President, and Chief Financial Officer, respectively. These performance-based RSUs are allocated in equal parts to two separate performance metrics: (i) TSR, with vesting based on the Company’s TSR relative to its peer-group homebuilders; and (ii) earnings per share. The vesting, if at all, of these performance-based RSUs may range from 0% to 100% and will be based on the Company’s percentage attainment of specified threshold, target and maximum performance goals. The performance period for these performance-based RSUs is January 1, 2018 to December 31, 2020. The fair value of the performance-based RSUs related to the TSR metric was determined to be $10.97 per share based on a Monte Carlo simulation. The fair value of the performance-based RSUs related to the earnings per share goal was measured using a price of $16.94 per share, which was the closing stock price on the date of grant. Each award will be expensed over the requisite service period.

On February 15, 2018, the Compensation Committee of our Board of Directors certified the performance achieved with respect to performance-based RSUs granted to the Company’s Chief Executive Officer, President, and Chief Financial Officer in 2015 that resulted in the issuance of 197,898 shares of our common stock under the 2013 Incentive Plan. The vesting of these performance-based RSUs are included in the table above. RSUs that were forfeited in the table above, during the six months ended June 30, 2018, included performance-based RSUs and time-based RSUs that were forfeited for no consideration.
On February 27, 2017, the Company granted an aggregate of 990,279 time-vested RSUs to certain employees and officers. The RSUs granted vest in equal installments annually on the anniversary of the grant date over a three year period. The fair value of each RSU granted on February 27, 2017 was measured using a price of $12.10 per share, which was the closing stock price on the date of grant. Each award will be expensed on a straight-line basis over the vesting period.

On February 27, 2017, the Company granted 257,851, 247,933 and 119,008 performance-based RSUs to the Company’s Chief Executive Officer, President, and Chief Financial Officer, respectively. These performance-based

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

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. 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 $66.4 million and $76.4 million as of June 30, 2018 and December 31, 2017, respectively. We had a valuation allowance related to those net deferred tax assets of $3.5 million as of both June 30, 2018 and December 31, 2017. The Company will continue to evaluate both positive and negative evidence in determining the need for a valuation allowance against its deferred tax assets. Changes in positive and negative evidence, including differences between the Company's future operating results and the estimates utilized in the determination of the valuation allowance, could result in changes in the Company's estimate of the valuation allowance against its deferred tax assets. The accounting for deferred taxes is based upon estimates of future results. Differences between the anticipated and actual outcomes of these future results could have a material impact on the Company's consolidated results of operations or financial position. Also, changes in existing federal and state tax laws and tax rates could affect future tax results and the valuation allowance against the Company's deferred tax assets.

TRI Pointe has certain liabilities with Weyerhaeuser Company ("Weyerhaeuser") related to a tax sharing agreement. As of June 30, 2018 and December 31, 2017, we had an income tax liability to Weyerhaeuser of $8.3 million and $7.7 million, respectively. The income tax liability to Weyerhaeuser is recorded in accrued expenses and other liabilities on the accompanying consolidated balance sheets.

Our provision for income taxes totaled $21.1 million and $19.1 million for the three months ended June 30, 2018 and 2017, respectively. Our provision for income taxes totaled $35.8 million and $23.7 million for the six months ended June 30, 2018 and 2017, respectively. The Company classifies any interest and penalties related to income taxes assessed by jurisdiction as part of income tax expense. The Company had $1.5 million of uncertain tax positions recorded as of both June 30, 2018 and December 31, 2017. The Company has not been assessed interest or penalties by any major tax jurisdictions related to prior years.

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

16. Related Party Transactions

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

17. Supplemental Disclosure to Consolidated Statements of Cash Flows

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

	Six Months Ended June 30,	
	2018	2017
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest, net of amounts capitalized of $39,229 and $43,573	$—	$—
Income taxes	$62,011	$10,950
Supplemental disclosures of noncash activities:		
Amortization of senior note discount capitalized to real estate inventory	$1,069	$1,010
Increase in other assets related to adoption of ASC 606	$39,534	$—
Amortization of deferred loan costs capitalized to real estate inventory	$3,003	$2,648
Effect of net consolidation and de-consolidation of variable interest entities:		
Decrease in consolidated real estate inventory not owned	$—	$(3,275)
Decrease in noncontrolling interests	$—	$3,275

18. 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 June 30, 2018 and December 31, 2017, condensed consolidating statements of operations for the three and six months ended June 30, 2018 and 2017 and condensed consolidating statement of cash flows for the six months ended June 30, 2018 and 2017. Because TRI Pointe's non-Guarantor subsidiaries are considered minor, as defined in Rule 3-10(h) of Regulation S-X, the non-Guarantor subsidiaries' information is not separately presented in the tables below, but is included with the Guarantors. Additionally, because TRI Pointe Group has no independent assets or operations, as defined in Rule 3-10(h) of Regulation S-X, the condensed consolidated financial information of TRI Pointe Group and TRI Pointe Homes, the co-issuers of the 2019 Notes and 2024 Notes, is presented together in the column titled "Issuer".

Condensed Consolidating Balance Sheet (in thousands):

	June 30, 2018			
	Issuer	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated TRI Pointe Group, Inc.
Assets				
Cash and cash equivalents	$125,531	$114,375	$—	$239,906
Receivables	15,801	43,810	—	59,611
Intercompany receivables	915,563	—	(915,563)	—
Real estate inventories	811,746	2,436,040	—	3,247,786
Investments in unconsolidated entities	—	4,169	—	4,169
Goodwill and other intangible assets, net	156,604	4,090	—	160,694
Investments in subsidiaries	1,534,825	—	(1,534,825)	—
Deferred tax assets, net	10,892	55,522	—	66,414
Other assets	11,461	82,644	—	94,105
Total assets	$3,582,423	$2,740,650	$(2,450,388)	$3,872,685
Liabilities				
Accounts payable	$14,608	$74,328	$—	$88,936
Intercompany payables	—	915,563	(915,563)	—
Accrued expenses and other liabilities	82,747	215,330	—	298,077
Senior notes	1,453,366	—	—	1,453,366
Total liabilities	1,550,721	1,205,221	(915,563)	1,840,379
Equity				
Total stockholders' equity	2,031,702	1,534,825	(1,534,825)	2,031,702
Noncontrolling interests	—	604	—	604
Total equity	2,031,702	1,535,429	(1,534,825)	2,032,306
Total liabilities and equity	$3,582,423	$2,740,650	$(2,450,388)	$3,872,685

Condensed Consolidating Balance Sheet (in thousands):

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

Condensed Consolidating Statement of Operations (in thousands):

	Three Months Ended June 30, 2018			
	Issuer	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated TRI Pointe Group, Inc.
Homebuilding:				
Home sales revenue	$255,642	$ 513,153	$ —	$ 768,795
Land and lot sales revenue	—	1,518	—	1,518
Other operations revenue	—	599	—	599
Total revenues	255,642	515,270	—	770,912
Cost of home sales	213,038	391,058	—	604,096
Cost of land and lot sales	—	1,426	—	1,426
Other operations expense	—	589	—	589
Sales and marketing	11,992	33,752	—	45,744
General and administrative	17,941	18,542	—	36,483
Homebuilding income from operations	12,671	69,903	—	82,574
Equity in income of unconsolidated entities	—	69	—	69
Other (expense) income, net	(104)	31	—	(73)
Homebuilding income before income taxes	12,567	70,003	—	82,570
Financial Services:				
Revenues	—	391	—	391
Expenses	—	129	—	129
Equity in income of unconsolidated entities	—	1,984	—	1,984
Financial services income before income taxes	—	2,246	—	2,246
Income before income taxes	12,567	72,249	—	84,816
Equity of net income of subsidiaries	51,113	—	(51,113)	—
Provision for income taxes	—	(21,136)	—	(21,136)
Net income	63,680	51,113	(51,113)	63,680
Net income attributable to noncontrolling interests	—	—	—	—
Net income available to common stockholders	$63,680	$ 51,113	$ (51,113)	$ 63,680

- 30 -

Condensed Consolidating Statement of Operations (in thousands):

	Three Months Ended June 30, 2017			
	Issuer	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated TRI Pointe Group, Inc.
Homebuilding:				
Home sales revenue	$154,212	$414,604	$ —	$ 568,816
Land and lot sales revenue	—	865	—	865
Other operations revenue	—	600	—	600
Total revenues	154,212	416,069	—	570,281
Cost of home sales	132,859	321,382	—	454,241
Cost of land and lot sales	—	644	—	644
Other operations expense	—	591	—	591
Sales and marketing	6,966	25,364	—	32,330
General and administrative	16,304	17,384	—	33,688
Homebuilding (loss) income from operations	(1,917)	50,704	—	48,787
Equity in income of unconsolidated entities	—	1,508	—	1,508
Other income, net	9	35	—	44
Homebuilding (loss) income before income taxes	(1,908)	52,247	—	50,339
Financial Services:				
Revenues	—	345	—	345
Expenses	—	77	—	77
Equity in income of unconsolidated entities	—	1,294	—	1,294
Financial services income before income taxes	—	1,562	—	1,562
(Loss) income before income taxes	(1,908)	53,809	—	51,901
Equity of net income of subsidiaries	34,415	—	(34,415)	—
Benefit (provision) for income taxes	207	(19,305)	—	(19,098)
Net income	32,714	34,504	(34,415)	32,803
Net income attributable to noncontrolling interests	—	(89)	—	(89)
Net income available to common stockholders	$32,714	$34,415	$ (34,415)	$ 32,714

Condensed Consolidating Statement of Operations (in thousands):

	Six Months Ended June 30, 2018			
	Issuer	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated TRI Pointe Group, Inc.
Homebuilding:				
Home sales revenue	$446,062	$905,305	$—	$1,351,367
Land and lot sales revenue	—	1,741	—	1,741
Other operations revenue	—	1,197	—	1,197
Total revenues	446,062	908,243	—	1,354,305
Cost of home sales	372,093	682,505	—	1,054,598
Cost of land and lot sales	—	1,929	—	1,929
Other operations expense	—	1,191	—	1,191
Sales and marketing	22,509	61,518	—	84,027
General and administrative	36,100	37,197	—	73,297
Homebuilding income from operations	15,360	123,903	—	139,263
Equity in loss of unconsolidated entities	—	(399)	—	(399)
Other income, net	35	63	—	98
Homebuilding income before income taxes	15,395	123,567	—	138,962
Financial Services:				
Revenues	—	674	—	674
Expenses	—	266	—	266
Equity in income of unconsolidated entities	—	2,986	—	2,986
Financial services income before income taxes	—	3,394	—	3,394
Income before income taxes	15,395	126,961	—	142,356
Equity of net income of subsidiaries	91,165	—	(91,165)	—
Provision for income taxes	—	(35,796)	—	(35,796)
Net income	106,560	91,165	(91,165)	106,560
Net income attributable to noncontrolling interests	—	—	—	—
Net income available to common stockholders	$106,560	$91,165	$(91,165)	$106,560

Condensed Consolidating Statement of Operations (in thousands):

	Six Months Ended June 30, 2017			
	Issuer	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated TRI Pointe Group, Inc.
Homebuilding:				
Home sales revenue	$285,049	$675,771	$—	$960,820
Land and lot sales revenue	—	1,443	—	1,443
Other operations revenue	—	1,168	—	1,168
Total revenues	285,049	678,382	—	963,431
Cost of home sales	245,117	527,528	—	772,645
Cost of land and lot sales	—	1,298	—	1,298
Other operations expense	—	1,151	—	1,151
Sales and marketing	13,449	45,581	—	59,030
General and administrative	33,553	34,784	—	68,337
Homebuilding (loss) income from operations	(7,070)	68,040	—	60,970
Equity in income of unconsolidated entities	—	1,646	—	1,646
Other income, net	18	103	—	121
Homebuilding (loss) income before income taxes	(7,052)	69,789	—	62,737
Financial Services:				
Revenues	—	586	—	586
Expenses	—	151	—	151
Equity in income of unconsolidated entities	—	1,560	—	1,560
Financial services income before income taxes	—	1,995	—	1,995
(Loss) income before income taxes	(7,052)	71,784	—	64,732
Equity of net income of subsidiaries	43,452	—	(43,452)	—
Benefit (provision) for income taxes	4,507	(28,219)	—	(23,712)
Net income	40,907	43,565	(43,452)	41,020
Net income attributable to noncontrolling interests	—	(113)	—	(113)
Net income available to common stockholders	$40,907	$43,452	$(43,452)	$40,907

Condensed Consolidating Statement of Cash Flows (in thousands):

	Six Months Ended June 30, 2018			
	Issuer	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated TRI Pointe Group, Inc.
Cash flows from operating activities:				
Net cash provided by (used in) operating activities	$97,711	$ (97,760)	$ —	$ (49)
Cash flows from investing activities:				
Purchases of property and equipment	(4,148)	(11,534)	—	(15,682)
Proceeds from sale of property and equipment	—	3	—	3
Investments in unconsolidated entities	—	(1,178)	—	(1,178)
Intercompany	(118,615)	—	118,615	—
Net cash (used in) provided by investing activities	(122,763)	(12,709)	118,615	(16,857)
Cash flows from financing activities:				
Repayment of debt	(21,685)	—	—	(21,685)
Distributions to noncontrolling interests	—	(1)	—	(1)
Proceeds from issuance of common stock under share-based awards	1,633	—	—	1,633
Minimum tax withholding paid on behalf of employees for restricted stock units	(6,049)	—	—	(6,049)
Intercompany	—	118,615	(118,615)	—
Net cash (used in) provided by financing activities	(26,101)	118,614	(118,615)	(26,102)
Net (decrease) increase in cash and cash equivalents	(51,153)	8,145	—	(43,008)
Cash and cash equivalents - beginning of period	176,684	106,230	—	282,914
Cash and cash equivalents - end of period	$125,531	$ 114,375	$ —	$ 239,906

Condensed Consolidating Statement of Cash Flows (in thousands):

	Six Months Ended June 30, 2017			
	Issuer	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated TRI Pointe Group, Inc.
Cash flows from operating activities:				
Net cash used in operating activities	$(38,171)	$(182,529)	$ —	$(220,700)
Cash flows from investing activities:				
Purchases of property and equipment	(1,232)	(561)	—	(1,793)
Proceeds from sale of property and equipment	—	6	—	6
Investments in unconsolidated entities	—	(462)	—	(462)
Intercompany	(184,084)	—	184,084	—
Net cash used in investing activities	(185,316)	(1,017)	184,084	(2,249)
Cash flows from financing activities:				
Borrowings from notes payable	450,000	—	—	450,000
Repayment of notes payable	(213,726)	—	—	(213,726)
Debt issuance costs	(5,906)	—	—	(5,906)
Distributions to noncontrolling interests	—	(987)	—	(987)
Proceeds from issuance of common stock under share-based awards	2,449	—	—	2,449
Minimum tax withholding paid on behalf of employees for restricted stock units	(2,896)	—	—	(2,896)
Share repurchases	(99,697)	—	—	(99,697)
Intercompany	—	184,084	(184,084)	—
Net cash provided by financing activities	130,224	183,097	(184,084)	129,237
Net decrease in cash and cash equivalents	(93,263)	(449)	—	(93,712)
Cash and cash equivalents - beginning of period	141,568	67,089	—	208,657
Cash and cash equivalents - end of period	$48,305	$66,640	$ —	$114,945

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

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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

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

Forward-Looking Statements

Forward-looking statements that are included in this Quarterly Report on Form 10-Q are generally accompanied by words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “future,” “goal,” “intend,” “likely,” “may,” “might,” “plan “predict,” “project,” “should,” “target,” “will,” “would,” or other words that convey the uncertainty of future events or outcome These forward-looking statements may include, but are not limited to, statements regarding our strategy, projections and estimates concerning the timing and success of specific projects and our future production, land and lot sales, the outcome of legal proceedings, the anticipated impact of natural disasters on our operations, operational and financial results, including our estimates for growth, financial condition, sales prices, prospects and capital spending.

Risks, Uncertainties and Assumptions

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

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

- risks related to unauthorized access to our computer systems, theft of our homebuyers’ confidential information or other forms of cyber-attack; and
- other factors described in “Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2017 and in other filings we make with the Securities and Exchange Commission (“SEC”).

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related condensed notes thereto contained elsewhere in this Quarterly Report on Form 10-Q. The information contained in this Quarterly Report on Form 10-Q is not a complete description of our business or the risks associated with an investment in our securities. We urge investors to review and consider carefully the various disclosures made by us in this report and in our other reports filed with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2017 and subsequent reports on Form 8-K, which discuss our business in greater detail. The section entitled “Risk Factors” set forth in Item 1A of our Annual Report on Form 10-K, and similar disclosures in our other SEC filings, discuss some of the important risk factors that may affect our business, results of operations and financial condition. Investors should carefully consider those risks, in addition to the information in this report and in our other filings with the SEC, before deciding to invest in, or maintain an investment in, our common stock.

Overview and Outlook

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, historically low unemployment levels and modest wage gains, combined with a limited supply of new and existing homes. Nevertheless, we continue to see variability from market to market with demand mostly driven by general local economic conditions. In certain of our 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 continue to monitor the impact of rising interest rates, which could challenge our ability to capture steady price increases in certain markets and could negatively impact our sales pace. Overall, we believe demand 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 the downward supply pressures described above. While market conditions remain generally strong, we continue to monitor the potential impact of political policy, most notably the potential cost pressures and overall economic impact resulting from modified international trade tariffs.

Our results for the three and six months ended June 30, 2018 support our generally positive outlook. For the quarter ended June 30, 2018, deliveries increased 13% from the prior-year period and average sales price increased 19%, fueling a 35% increase in home sales revenue. The increase in new home deliveries was accompanied by a 130 basis point increase in homebuilding gross margins and a 90 basis point reduction in selling, general and administrative expense as a percentage of home sales revenues. New home orders were down 7% compared to the prior-year period, and backlog units at quarter end were up 8% compared to the end of the prior-year period, with backlog dollar value up 13%. The average sales price of homes in backlog at quarter end was $668,000, the highest quarter end level we have experienced since the inception of TRI Pointe Group.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Homebuilding:				
Home sales revenue	$768,795	$568,816	$1,351,367	$960,820
Land and lot sales revenue	1,518	865	1,741	1,443
Other operations revenue	599	600	1,197	1,168
Total revenues	770,912	570,281	1,354,305	963,431
Cost of home sales	604,096	454,241	1,054,598	772,645
Cost of land and lot sales	1,426	644	1,929	1,298
Other operations expense	589	591	1,191	1,151
Sales and marketing	45,744	32,330	84,027	59,030
General and administrative	36,483	33,688	73,297	68,337
Homebuilding income from operations	82,574	48,787	139,263	60,970
Equity in income (loss) of unconsolidated entities	69	1,508	(399)	1,646
Other (expense) income, net	(73)	44	98	121
Homebuilding income before income taxes	82,570	50,339	138,962	62,737
Financial Services:				
Revenues	391	345	674	586
Expenses	129	77	266	151
Equity in income of unconsolidated entities	1,984	1,294	2,986	1,560
Financial services income before income taxes	2,246	1,562	3,394	1,995
Income before income taxes	84,816	51,901	142,356	64,732
Provision for income taxes	(21,136)	(19,098)	(35,796)	(23,712)
Net income	63,680	32,803	106,560	41,020
Net income attributable to noncontrolling interests	—	(89)	—	(113)
Net income available to common stockholders	$63,680	$32,714	$106,560	$40,907
Earnings per share				
Basic	$0.42	$0.21	$0.70	$0.26
Diluted	$0.42	$0.21	$0.70	$0.26

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

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

	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017			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
Maracay	132	14.2	3.1	162	16.0	3.4	(19)%	(11)%	(8)%
Pardee Homes	464	33.5	4.6	483	28.8	5.6	(4)%	16%	(17)%
Quadrant Homes	54	6.3	2.9	107	6.8	5.2	(50)%	(7)%	(46)%
Trendmaker Homes	161	29.0	1.9	129	31.7	1.4	25%	(9)%	36%
TRI Pointe Homes	408	33.8	4.0	413	31.5	4.4	(1)%	7%	(8)%
Winchester Homes	124	14.0	3.0	151	12.0	4.2	(18)%	17%	(30)%
Total	1,343	130.8	3.4	1,445	126.8	3.8	(7)%	3%	(10)%

- 38 -

Net new home orders for the three months ended June 30, 2018 decreased by 102 orders, or 7%, to 1,343, compared to 1,445 during the prior-year period. The decrease in net new home orders was due to a 10% decrease in monthly absorption rates, slightly offset by a 3% increase in average selling communities.

Maracay reported a 19% decrease in net new home orders driven by an 11% decrease in average selling communities and an 8% decrease in monthly absorption rate. The decrease in average selling communities was due to the timing of the opening and closing of communities. Maracay continued to experience strong market conditions in Arizona, as demonstrated by a monthly absorption rate of 3.1 homes per community. Pardee Homes reported a 4% decrease in net new home orders driven by a 17% decrease in monthly absorption rate, offset by a 16% increase in average selling communities. The decrease in monthly absorption rate was primarily due to the fact that the prior-year period included a high absorbing entry level attached community in San Diego with no similar project in the current period. Overall demand remained strong at Pardee Homes with an absorption rate of 4.6 homes per community per month. The increase in average selling communities was a result of increased community count in the Los Angeles, Inland Empire and Las Vegas markets, offset by a decrease in San Diego. Net new home orders decreased 50% at Quadrant Homes due primarily to a 46% decrease in monthly absorption rate compared to the prior-year period. The decrease in absorption rate at Quadrant Homes was due to the timing of new community openings and a higher priced but slower absorbing product mix compared to the prior year, as evidenced by the 32% increase in average sales price in backlog as of June 30, 2018 compared to the same period in the prior year. Trendmaker Homes' net new home orders increased 25% due to a 36% increase in monthly absorption rate offset by a 9% decrease in average selling communities. The increase in absorption rate was due to improved market conditions in Houston during the quarter. TRI Pointe Homes' net new home orders decreased 1% due to an 8% decrease in monthly absorption rate offset by a 7% increase in average selling communities. Demand remained strong in the markets in which TRI Pointe Homes builds, as evidenced by a monthly absorption rate of 4.0 homes per community at average selling prices above the Company average. Winchester Homes reported an 18% decrease in net new home orders as a result of a 30% decrease in monthly absorption rate, offset by a 17% increase in average selling communities. The decrease in monthly absorption rate was due to changes in product mix, with fewer high absorbing attached communities compared to the prior-year period.

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

	As of June 30, 2018			As of June 30, 2017			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	256	$134,138	$ 524	311	$156,611	$ 504	(18)%	(14)%	4 %
Pardee Homes	695	451,860	650	553	369,021	667	26 %	22 %	(3)%
Quadrant Homes	138	130,270	944	201	144,204	717	(31)%	(10)%	32 %
Trendmaker Homes	250	145,046	580	204	105,663	518	23 %	37 %	12 %
TRI Pointe Homes	728	523,907	720	613	428,281	699	19 %	22 %	3 %
Winchester Homes	204	132,875	651	226	135,437	599	(10)%	(2)%	9 %
Total	2,271	$1,518,096	$ 668	2,108	$1,339,217	$ 635	8 %	13 %	5 %

Backlog units reflect the number of homes, net of actual cancellations experienced during the period, for which we have entered into a sales contract with a homebuyer but for which we have not yet delivered the home. Homes in backlog are generally delivered within three to nine months, although we may experience cancellations of sales contracts prior to delivery. Our cancellation rate of homebuyers who contracted to buy a home but cancelled prior to delivery of the home (as a percentage of overall orders) was relatively consistent at 16% compared to 15% during the prior-year period. The dollar value of backlog was approximately $1.5 billion as of June 30, 2018, an increase of $178.9 million, or 13%, compared to $1.3 billion as of June 30, 2017. This increase was due to an increase in backlog units of 163, or 8%, to 2,271 as of June 30, 2018, compared to 2,108 as of June 30, 2017 and a 5% increase in the average sales price of homes in backlog to $668,000 as of June 30, 2018, compared to $635,000 as of June 30, 2017.

Maracay's backlog dollar value decreased 14% compared to the prior year due to an 18% decrease in backlog units, offset by a 4% increase in average sales price. The decrease in backlog units was due to the 19% decrease in net new home orders during the three months ended June 30, 2018 as a result of a decrease in average selling communities and monthly absorption rate. Pardee Homes’ backlog dollar value increased 22% due to an increase in backlog units of 26% offset by a decrease in average sales price of 3%. The increase in backlog units was due to the carryover of backlog units from the first quarter of 2018 and the timing of construction and deliveries. Quadrant Homes’ backlog dollar value decreased 10% as a result of a 31% decrease in backlog units offset by a 32% increase in average sales price. The increase in average sales price w as related to a higher mix of homes in backlog from the core Seattle markets of King and Snohomish counties which have higher price points and reflects the continued pricing power in this market. The decrease in backlog units was a result of the 50% decrease in new home orders for the three months ended June 30, 2018. Trendmaker Homes' backlog dollar value increased 37% primarily due to a 23% increase in backlog units and a 12% increase in average sales price. The increase in backlog units related to the 25% increase in net new home orders for the quarter and timing of deliveries. TRI Pointe Homes' backlog dollar value increased 22% due to a 19% increase in backlog units and a 3% increase in average selling price. The increase in backlog units was the result of the carryover of backlog units from the first quarter of 2018 and the timing of deliveries. Winchester Homes' backlog dollar value decreased 2% driven by the 10% decrease in backlog units offset by a 9% increase in average sales price. The decrease in backlog units is a result of an 18% decrease in net new home orders for the three months ended June 30, 2018. The increase in average sales price compared to the prior year was due to mix of more detached product which generally has a higher average sales price.

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

	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017			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	121	$56,949	$ 471	164	$75,754	$ 462	(26)%	(25)%	2 %
Pardee Homes	377	243,286	645	372	180,377	485	1 %	35 %	33 %
Quadrant Homes	85	64,805	762	64	39,667	620	33 %	63 %	23 %
Trendmaker Homes	155	76,198	492	133	64,798	487	17 %	18 %	1 %
TRI Pointe Homes	347	255,642	737	243	154,212	635	43 %	66 %	16 %
Winchester Homes	130	71,915	553	95	54,008	569	37 %	33 %	(3)%
Total	1,215	$768,795	$ 633	1,071	$568,816	$ 531	13 %	35 %	19 %

Home sales revenue increased nearly $200.0 million, or 35%, to $768.8 million for the three months ended June 30, 2018. The increase was comprised of (i) $123.5 million related to a $102,000, or 19%, increase in average sales price of homes delivered to $633,000 for the three months ended June 30, 2018, from $531,000 in the prior-year period, and (ii) $76.5 million related to an increase in new homes delivered to 1,215 for the three months ended June 30, 2018 from 1,071 in the prior-year period.

Maracay had a 25% decrease in home sales revenue due to a 26% decrease in new homes delivered. The decrease in new home deliveries was due to the decrease in new home orders and the timing of deliveries. Pardee Homes' home sales revenue increased 35% due to a 33% increase in average sales price. The increase in average sales price was due to a product mix shift that included a greater proportion of deliveries from our higher priced long-dated California assets. Quadrant Homes increased home sales revenue by 63% due to a 33% increase in new homes delivered and a 23% increase in average sales price. The increase in new homes delivered was due to starting the year with a higher number of backlog units compared to the prior-year period. The increase in average sales price was the result of delivering more units in the core Seattle markets of King and Snohomish counties, which have higher price points and reflects the continued pricing power in this market. Trendmaker Homes' home sales revenue increased 18% due to a 17% increase in new homes delivered. The increase in new homes delivered was largely due to timing of deliveries, which was driven by a 17% increase in backlog units to start the quarter compared to the prior-year period. TRI Pointe Homes had a 66% increase in home sales revenue due to a 43% increase in new homes delivered and a 16% increase in average sales price. The increase in new homes delivered was driven by 51% higher backlog to start the quarter compared to the prior-year period, and the increase in average sales price was related to product mix in the quarter. Home sales revenue increased at Winchester Homes by 33% largely due to an increase in homes delivered as a result of higher backlog to start the quarter compared to the prior-year period.

Homebuilding Gross Margins (dollars in thousands)

	Three Months Ended June 30,			
	2018	%	2017	%
Home sales revenue	$768,795	100.0%	$568,816	100.0%
Cost of home sales	604,096	78.6 %	454,241	79.9 %
Homebuilding gross margin	164,699	21.4 %	114,575	20.1 %
Add: interest in cost of home sales	19,569	2.5 %	13,145	2.3 %
Add: impairments and lot option abandonments	609	0.1 %	507	0.1 %
Adjusted homebuilding gross margin[(1)]	$184,877	24.0 %	$128,227	22.5 %
Homebuilding gross margin percentage	21.4 %		20.1 %	
Adjusted homebuilding gross margin percentage[(1)]	24.0 %		22.5 %	

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

Our homebuilding gross margin percentage increased to 21.4% for the three months ended June 30, 2018 as compared to 20.1% for the prior-year period. The increase 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 a greater impact on our overall gross margin percentage compared to the prior-year period. In addition, gross margin percentage increased at each of our homebuilding segments for the quarter as compared to the prior-year period. Excluding interest and impairment and lot option abandonments in cost of home sales, adjusted homebuilding gross margin percentage was 24.0% for the three months ended June 30, 2018, compared to 22.5% for the prior-year period.

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

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

	Three Months Ended June 30,		As a Percentage of Home Sales Revenue	
	2018	2017	2018	2017
Sales and marketing	$45,744	$32,330	6.0 %	5.7 %
General and administrative (G&A)	36,483	33,688	4.7 %	5.9 %
Total sales and marketing and G&A	$82,227	$66,018	10.7%	11.6%

Total sales and marketing and G&A (“SG&A”) as a percentage of home sales revenue decreased to 10.7% for the three months ended June 30, 2018, compared to 11.6% in the prior-year period. Total SG&A expense increased $16.2 million, to $82.2 million for the three months ended June 30, 2018 from $66.0 million in the prior-year period.

Sales and marketing expense as a percentage of home sales revenue increased to 6.0% for the three months ended June 30, 2018, compared to 5.7% for the prior-year period. The increase was due primarily to advertising costs impacted by the timing of future community openings and the accounting changes resulting from the adoption of ASC 606 on January 1, 2018. For further details on ASC 606, see Note 1, Organization, Basis of Presentation and Summary of Significant Accounting Policies to the accompanying condensed notes to unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q. Sales and marketing expense increased to $45.7 million for the three months ended June 30, 2018 compared to $32.3 million in the prior-year period due in part to the variable cost associated with higher home sales revenue, in addition to the accounting changes resulting from the adoption of ASC 606 on January 1, 2018.

General and administrative (“G&A”) expenses as a percentage of home sales revenue decreased to 4.7% of home sales revenue for the three months ended June 30, 2018 compared to 5.9% for the prior-year period as a result of higher operating leverage due to the 35% increase in home sales revenue. G&A expenses increased to $36.5 million for the three months ended June 30, 2018 compared to $33.7 million for the prior-year period primarily as a result of additional headcount to support future growth in our existing markets.

Interest

Interest, which was incurred principally to finance land acquisitions, land development and home construction, totaled $21.6 million and $19.9 million for the three months ended June 30, 2018 and 2017, respectively. All interest incurred in both periods was capitalized. The increase in interest incurred during the three months ended June 30, 2018 as compared to the prior-year period was primarily attributable to the issuance of our $300 million aggregate principal amount of 5.250% Senior Notes due 2027 (the "2027 Notes") in June of 2017.

Income Tax

For the three months ended June 30, 2018, we recorded a tax provision of $21.1 million based on an effective tax rate of 24.9%. For the three months ended June 30, 2017, we recorded a tax provision of $19.1 million based on an effective tax rate of 36.8%. The decrease in the current year income tax rate is due to enactment of the Tax Cuts and Jobs Act which reduced the federal corporate tax rate to 21% from 35%, effective January 1, 2018. The increase in provision for income taxes is due to a $32.9 million increase in income before income taxes to $84.8 million for the three months ended June 30, 2018, compared to $51.9 million for the prior-year period.

Financial Services Segment

Income from our financial services operations increased to $2.2 million for the three months ended June 30, 2018 compared to $1.6 million for the prior-year period. The increase in financial services income for the three months ended June 30, 2018 compared to the prior-year period relates to the growth of our mortgage financing and title services operations. Both our mortgage financing and title service operations were started in late 2014 and have experienced steady year-over-year growth from inception. In early 2018, we further expanded our suite of financial services operations to include homeowners' insurance services. We expect the launch of these insurance agency operations will provide further growth to this segment of our business.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

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

	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017			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
Maracay	285	13.6	3.5	346	16.1	3.6	(18)%	(16)%	(3)%
Pardee Homes	937	33.1	4.7	861	28.6	5.0	9 %	16 %	(6)%
Quadrant Homes	162	6.6	4.1	227	7.3	5.2	(29)%	(10)%	(21)%
Trendmaker Homes	316	29.3	1.8	280	31.9	1.5	13 %	(8)%	20 %
TRI Pointe Homes	867	33.6	4.3	766	30.7	4.2	13 %	9 %	2 %
Winchester Homes	272	13.9	3.3	264	12.0	3.7	3 %	16 %	(11)%
Total	2,839	130.1	3.6	2,744	126.6	3.6	3 %	3 %	— %

Net new home orders for the six months ended June 30, 2018 increased by 95 orders, or 3%, to 2,839, compared to 2,744 during the prior-year period. The increase in net new home orders was due to a 3% increase in average selling communities.

Maracay reported an 18% decrease in net new home orders driven by a 16% decrease in average selling communities and a 3% decrease in monthly absorption rate. The decrease in average selling communities was due to the timing of the opening and closing of communities. Maracay continued to experience strong market conditions in Arizona, as demonstrated by a monthly absorption rate of 3.5 homes per community. Pardee Homes increased net new home orders by 9% due to a 16% increase in average community count offset by a 6% decrease in monthly absorption rate. The increase in average selling

communities was a result of increased community growth in the Los Angeles, Inland Empire and Las Vegas markets. Overall demand remained strong at Pardee Homes with an absorption rate of 4.7 homes per community per month. Net new home orders decreased 29% at Quadrant Homes due primarily to a 21% decrease in monthly absorption rate and a 10% decrease in average selling communities. The decrease in absorption rates at Quadrant Homes was due to the timing of new community openings and a higher priced but slower absorbing product mix compared to the prior year, as evidenced by the 32% increase in the average sales price in backlog as of June 30, 2018 compared to June 30, 2017. Trendmaker Homes' net new home orders increased 13% due to a 20% increase in monthly absorption rate offset by an 8% decrease in average selling communities. The increase in absorption rates was due to improved market conditions in Houston during the six months ended June 30, 2018 compared to the prior-year period. TRI Pointe Homes' net new home orders increased 13% due to a 9% increase in average selling communities and a 2% increase in monthly absorption rate. The increase in average selling communities was driven by community growth in our Southern California and Colorado markets. Demand remained strong in the markets in which TRI Pointe Homes builds, as evidenced by a monthly absorption rate of 4.3 homes per community at average selling prices above the Company average. Winchester Homes increased net new home orders 3% as a result of a 16% increase in average selling communities offset by an 11% decrease in monthly absorption rate. The decrease in monthly absorption rate was due to changes in product mix, with fewer higher absorbing attached communities compared to the prior-year period.

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

	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017			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	246	$115,404	$ 469	283	$126,814	$ 448	(13)%	(9)%	5 %
Pardee Homes	651	423,756	651	568	264,076	465	15 %	60 %	40 %
Quadrant Homes	168	126,111	751	127	79,550	626	32 %	59 %	20 %
Trendmaker Homes	239	117,383	491	239	116,737	488	— %	1 %	1 %
TRI Pointe Homes	616	446,062	724	451	285,049	632	37 %	56 %	15 %
Winchester Homes	219	122,651	560	161	88,594	550	36 %	38 %	2 %
Total	2,139	$1,351,367	$ 632	1,829	$960,820	$ 525	17 %	41 %	20 %

Home sales revenue increased $390.5 million, or 41%, to $1.4 billion for the six months ended June 30, 2018. The increase was comprised of (i) $227.7 million related to an increase in new homes delivered to 2,139 for the six months ended June 30, 2018 from 1,829 in the prior-year period, and (ii) $162.9 million related to a $107,000, or 20%, increase in average sales price of homes delivered to $632,000 for the six months ended June 30, 2018, from $525,000 in the prior-year period.

Maracay had a 9% decrease in home sales revenue due to a 13% decrease in new homes delivered, offset by a 5% increase in average sales price. The decrease in new home deliveries was due to the decrease in new home orders and the timing of deliveries. Pardee Homes' home sales revenue increased 60% due to a 40% increase in average sales price and a 15% increase in new homes delivered. The increase in average sales price was due to a product mix shift that included a greater proportion of deliveries from our higher priced long-dated California assets. Quadrant Homes increased home sales revenue by 59% due to a 32% increase in new homes delivered and a 20% increase in average sales price. The increase in average sales price was the result of delivering more units in the core Seattle markets of King and Snohomish counties, which have higher price points and reflects the continued pricing power in this market. Trendmaker Homes' home sales revenue remained relatively flat compared to the prior year. TRI Pointe Homes had a 56% increase in home sales revenue due to a 37% increase in new homes delivered and a 15% increase in average sales price. The increase in new homes delivered was driven by a greater number of backlog units to start the year compared to the prior-year period, and the increase in average sales price was related to product mix in the quarter. Home sales revenue increased at Winchester Homes by 38% largely due to an increase in homes delivered as a result of a greater number of backlog units to start the year compared to the prior-year period.

Homebuilding Gross Margins (dollars in thousands)

	Six Months Ended June 30,			
	2018	%	2017	%
Home sales revenue	$1,351,367	100.0%	$960,820	100.0%
Cost of home sales	1,054,598	78.0 %	772,645	80.4 %
Homebuilding gross margin	296,769	22.0 %	188,175	19.6 %
Add: interest in cost of home sales	33,798	2.5 %	22,825	2.4 %
Add: impairments and lot option abandonments	857	0.1 %	795	0.1 %
Adjusted homebuilding gross margin(1)	$331,424	24.5 %	$211,795	22.0 %
Homebuilding gross margin percentage	22.0 %		19.6 %	
Adjusted homebuilding gross margin percentage(1)	24.5 %		22.0 %	

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

Our homebuilding gross margin percentage increased to 22.0% for the six months ended June 30, 2018 as compared to 19.6% for the prior-year period. The increase in gross margin percentage was primarily due to the mix of new home deliveries from our long-dated California communities, which produce gross margins above the Company average, having a greater impact on our overall gross margin percentage compared to the prior-year period. In addition, gross margin percentage increased at each of our homebuilding segments for the six months ended June 30, 2018 as compared to the prior-year period. Excluding interest and impairment and lot option abandonments in cost of home sales, adjusted homebuilding gross margin percentage was 24.5% for the six months ended June 30, 2018, compared to 22.0% for the prior-year period.

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

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

	Six Months Ended June 30,		As a Percentage of Home Sales Revenue	
	2018	2017	2018	2017
Sales and marketing	$84,027	$59,030	6.2 %	6.1 %
General and administrative (G&A)	73,297	68,337	5.4 %	7.1 %
Total sales and marketing and G&A	$157,324	$127,367	11.6%	13.3%

Total sales and marketing and G&A (“SG&A”) as a percentage of home sales revenue decreased to 11.6% for the six months ended June 30, 2018, compared to 13.3% for the prior-year period. Total SG&A expense increased $29.9 million, to $157.3 million for the six months ended June 30, 2018 from $127.4 million in the prior-year period.

Sales and marketing expense as a percentage of home sales revenue increased to 6.2% for the six months ended June 30, 2018, compared to 6.1% for the prior-year period. The increase was due primarily to advertising costs impacted by the timing of future community openings. This was mostly offset by the higher operating leverage on the fixed components of sales and marketing expenses as a result of the 41% increase in homes sales revenue. Sales and marketing expense increased to $84.0 million for the six months ended June 30, 2018 compared to $59.0 million in the prior-year period due to higher advertising costs and the variable cost associated with higher home sales revenue, in addition to the accounting changes resulting from the adoption of ASC 606 on January 1, 2018. For further details on ASC 606, see Note 1, Organization, Basis of Presentation and Summary of Significant Accounting Policies to the accompanying condensed notes to unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q.

General and administrative ("G&A") expenses as a percentage of home sales revenue decreased to 5.4% of home sales revenue for the six months ended June 30, 2018 compared to 7.1% for the prior-year period as a result of higher operating leverage due to the 41% increase in home sales revenue. G&A expenses increased to $73.3 million for the six months ended June 30, 2018 compared to $68.3 million in the prior-year period primarily as a result of additional headcount to support future growth in our existing markets.

Interest

Interest, which was incurred principally to finance land acquisitions, land development and home construction, totaled $43.1 million and $38.8 million for the six months ended June 30, 2018 and 2017, respectively. All interest incurred in both periods was capitalized. The increase in interest incurred during the six months ended June 30, 2018 as compared to the prior-year period was primarily attributable to the issuance in June of 2017 of our $300 million aggregate principal amount of 5.250% Senior Notes due 2027 (the "2027 Notes").

Income Tax

For the six months ended June 30, 2018, we recorded a tax provision of $35.8 million based on an effective tax rate of 25.1%. For the six months ended June 30, 2017, we recorded a tax provision of $23.7 million based on an effective tax rate of 36.6%. The decrease in the current year income tax rate is due to enactment of the Tax Cuts and Jobs Act which reduced the federal corporate tax rate to 21% from 35%, effective January 1, 2018. The increase in provision for income taxes is due to a $77.6 million increase in income before income taxes to $142.4 million for the six months ended June 30, 2018, compared to $64.7 million for the prior-year period.

Financial Services Segment

Income from our financial services operations increased to $3.4 million for the six months ended June 30, 2018 compared to $2.0 million for the prior-year period. The increase in financial services income for the six months ended June 30, 2018 compared to the prior-year period relates to the growth of our mortgage financing and title services operations. Both our mortgage financing and title service operations were started in late 2014 and have experienced steady year-over-year growth from inception. In early 2018, we further expanded our suite of financial services operations to include homeowners' insurance services. We expect the launch of these insurance agency operations will provide further growth to this segment of our business.

Lots Owned or Controlled by Segment

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

	June 30,		Increase (Decrease)	
	2018	2017	Amount	%
Lots Owned				
Maracay	2,142	1,993	149	7 %
Pardee Homes	14,749	16,037	(1,288)	(8)%
Quadrant Homes	1,073	1,107	(34)	(3)%
Trendmaker Homes	1,443	1,578	(135)	(9)%
TRI Pointe Homes	2,584	2,921	(337)	(12)%
Winchester Homes	1,570	1,672	(102)	(6)%
Total	23,561	25,308	(1,747)	(7)%
Lots Controlled[(1)]				
Maracay	914	1,030	(116)	(11)%
Pardee Homes	1,075	125	950	760 %
Quadrant Homes	759	745	14	2 %
Trendmaker Homes	481	334	147	44 %
TRI Pointe Homes	1,584	573	1,011	176 %
Winchester Homes	455	777	(322)	(41)%
Total	5,268	3,584	1,684	47 %
Total Lots Owned or Controlled[(1)]	28,829	28,892	(63)	— %

(1) As of June 30, 2018 and 2017, lots controlled represented lots that were under land or lot option contracts or purchase contracts.

Liquidity and Capital Resources

Overview

Our principal uses of capital for the six months ended June 30, 2018 were operating expenses, land purchases, land development, home construction and repurchases of our senior notes. We used funds generated by our operations to meet our short-term working capital requirements. We remain focused on generating positive margins in our homebuilding operations and acquiring desirable land positions in order to maintain a strong balance sheet and keep us poised for growth. As of June 30, 2018, we had total liquidity of $826.7 million, including cash and cash equivalents of $239.9 million and $586.8 million of availability under the Credit Facility after considering the borrowing base provisions and outstanding letters of credit.

Our board of directors will consider a number of factors when evaluating our level of indebtedness and when making decisions regarding the incurrence of new indebtedness, including the purchase price of assets to be acquired with debt financing, the estimated market value of our assets and the availability of particular assets, and our Company as a whole, to generate cash flow to cover the expected debt service.

Senior Notes

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

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

- 46 -

TRI Pointe Group and TRI Pointe Homes are co-issuers of $450 million aggregate principal amount of 4.375% Senior Notes due 2019 ("2019 Notes") and $450 million aggregate principal amount of 5.875% Senior Notes due 2024 ("2024 Notes"). The 2019 Notes were issued at 98.89% of their aggregate principal amount and the 2024 Notes were issued at 98.15% of their aggregate principal amount. The net proceeds from the offering were $861.3 million, after debt issuance costs and discounts. The 2019 Notes and 2024 Notes mature on June 15, 2019 and June 15, 2024, respectively. Interest is payable semiannually in arrears on June 15 and December 15. During the three months ended June 30, 2018, we repurchased and cancelled an aggregate principal amount of $21.7 million of the 2019 Notes.

Our senior notes contain covenants that restrict our ability to, among other things, create liens or other encumbrances, enter into sale and leaseback transactions, or merge or sell all or substantially all of our assets. These limitations are subject to a number of qualifications and exceptions. As of June 30, 2018, we were in compliance with the covenants required by our senior notes.

Unsecured Revolving Credit Facility

On June 20, 2017, the Company modified the Credit Facility to extend the maturity date by two years to May 18, 2021, while decreasing the total commitments under the Credit Facility to $600 million from $625 million. In addition, the Credit Facility was modified to give the Company the option to make offers to the lenders to extend the maturity date of the Credit Facility in twelve-month increments, subject to the satisfaction of certain conditions. The Credit Facility contains a sublimit of $75 million for letters of credit. The Company may borrow under the Credit Facility in the ordinary course of business to fund its operations, including its land development and homebuilding activities. Borrowings under the Credit Facility will be governed by, among other things, a borrowing base. The Credit Facility contains customary affirmative and negative covenants, including financial covenants relating to consolidated tangible net worth, leverage, and liquidity or interest coverage. Interest rates on borrowings will be based on either a daily Eurocurrency base rate or a Eurocurrency rate, in either case, plus a spread ranging from 1.25% to 2.00% depending on the Company's leverage ratio. As of June 30, 2018, we had no outstanding indebtedness under the Credit Facility and $586.8 million of availability after considering the borrowing base provisions and outstanding letters of credit. At June 30, 2018, we had outstanding letters of credit of $13.2 million. These letters of credit were issued to secure various financial obligations. We believe it is not probable that any outstanding letters of credit will be drawn upon.

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

Financial Covenants	Actual at June 30, 2018	Covenant Requirement at June 30, 2018
Consolidated Tangible Net Worth	$1,871,008	$ 1,242,779
(Not less than $1.1 billion plus 50% of net income and 50% of the net proceeds from equity offerings after March 31, 2017)		
Leverage Test	39.9 %	≤55%
(Not to exceed 55%)		
Interest Coverage Test	6.1	≥1.5
(Not less than 1.5:1.0)		

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

Stock Repurchase Program

On February 16, 2018, our board of directors discontinued and cancelled a share repurchase program approved in 2017 (the "2017 Repurchase Program"), and approved a new share repurchase program authorizing the repurchase of shares of common stock with an aggregate value of up to $100 million through March 31, 2019 (the "2018 Repurchase Program"). Purchases of common stock pursuant to the 2018 Repurchase Program may be made in open market transactions effected through a broker-dealer at prevailing market prices, in block trades, or by other means in accordance with federal securities laws, including pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 under the Exchange Act. We are not obligated under the 2018 Repurchase Program to repurchase any specific number or dollar amount of shares of common stock, and we may modify, suspend or discontinue the 2018 Repurchase Program at any time. Our management will determine the timing and amount of repurchase in its discretion based on a variety of factors, such as the market price of our common stock, corporate requirements, general market economic conditions and legal requirements. During the six months ended June 30, 2018, we did not repurchase any shares under either the 2017 Repurchase Program or the 2018 Repurchase Program, and we have not repurchased any shares under the 2018 Repurchase Program through the date of the filing of this Quarterly Report on Form 10-Q.

Leverage Ratios

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

	June 30, 2018	December 31, 2017
Senior Notes	$1,453,366	$1,471,302
Total debt	1,453,366	1,471,302
Stockholders’ equity	2,031,702	1,929,722
Total capital	$3,485,068	$3,401,024
Ratio of debt-to-capital[(1)]	41.7 %	43.3 %
Total debt	$1,453,366	$1,471,302
Less: Cash and cash equivalents	(239,906)	(282,914)
Net debt	1,213,460	1,188,388
Stockholders’ equity	2,031,702	1,929,722
Net capital	$3,245,162	$3,118,110
Ratio of net debt-to-net capital[(2)]	37.4 %	38.1 %

(1) The ratio of debt-to-capital is computed as the quotient obtained by dividing total debt by the sum of total debt plus equity.

(2) The ratio of net debt-to-net capital is a non-GAAP financial measure and is computed as the quotient obtained by dividing net debt (which is total debt less cash and cash equivalents) by the sum of net debt plus equity. The most directly comparable GAAP financial measure is the ratio of debt-to-capital. We believe the ratio of net debt-to-net capital is a relevant financial measure for investors to understand the leverage employed in our operations and as an indicator of our ability to obtain financing. See the table above reconciling this non-GAAP financial measure to the ratio of debt-to-capital. Because the ratio of net debt-to-net capital is not calculated in accordance with GAAP, it may not be comparable to other similarly titled measures of other companies and should not be considered in isolation or as a substitute for, or superior to, financial measures prepared in accordance with GAAP.

Cash Flows—Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

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

- Net cash used in operating activities decreased by $220.7 million to $49,000 for the six months ended June 30, 2018, from net cash used of $220.7 million for the six months ended June 30, 2017. The change was comprised of offsetting activity, including (i) a decrease in cash outflows related to real estate inventories of $109.6 million due to timing of land acquisition and development, (ii) an increase in net income to $106.6 million in the six months ended June 30, 2018 compared to $41.0 million in the prior-year period, (iii) an increase in cash collected from receivables of $66.0 million in the six months ended June 30, 2018 compared to $9.7 million in the prior-year period, and (iv) other offsetting activity, including changes in other assets, accounts payable and accrued expenses.
- Net cash used in investing activities was $16.9 million for the six months ended June 30, 2018, compared to $2.2 million for the prior-year period. The increase in cash used in investing activities was due mainly to increased purchases of property and equipment and cash outflows associated with investments in unconsolidated entities.
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Net cash used in financing activities was $26.1 million for the six months ending June 30, 2018, from net cash provided by financing activities of $129.2 million for the same period in the prior year. The change was primarily driven by a decrease in net borrowings which were $236.3 million in the prior year, compared to net repayments of $21.7 million in the six months ended June 30, 2018. In addition, we used $99.7 million to repurchase shares of our common stock during the six months ended June 30, 2017 compared to none during the six months ended June 30, 2018.

Off-Balance Sheet Arrangements and Contractual Obligations

In the ordinary course of business, we enter into purchase contracts in order to procure lots for the construction of our homes. We are subject to customary obligations associated with entering into contracts for the purchase of land and improved lots. These purchase contracts typically require a cash deposit and the purchase of properties under these contracts is generally contingent upon satisfaction of certain requirements by the sellers, including obtaining applicable property and development entitlements. We also utilize option contracts with land sellers and land banking arrangements as a method of acquiring land in staged takedowns, to help us manage the financial and market risk associated with land holdings, and to reduce the use of funds from our corporate financing sources. These option contracts and land banking arrangements generally require a non-refundable deposit for the right to acquire land and lots over a specified period of time at pre-determined prices. We generally have the right, at our discretion, to terminate our obligations under both purchase contracts and option contracts by forfeiting our cash deposit with no further financial responsibility to the land seller. In some cases, however, we may be contractually obligated to complete development work even if we terminate the option to procure land or lots. As of June 30, 2018, we had $64.5 million of cash deposits, the majority of which are non-refundable, pertaining to land and lot option contracts and purchase contracts with an aggregate remaining purchase price of $672.1 million (net of deposits).

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

As of June 30, 2018, we had total liquidity of $826.7 million, including cash of $239.9 million and $586.8 million of availability under the Credit Facility after considering the borrowing base provisions and outstanding letters of credit.

Inflation

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

Seasonality

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

Description of Projects and Communities Under Development

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

Maracay

County, Project, City	Year of First Delivery(1)	Total Number of Lots(2)	Cumulative Homes Delivered as of June 30, 2018	Lots Owned as of June 30, 2018(3)	Backlog as of June 30, 2018(4)(5)	Homes Delivered for the Six Months Ended June 30, 2018	Sales Price Range (in thousands)(6)
Phoenix, Arizona							
City of Buckeye:							
Verrado Victory	2015	98	67	31	12	18	$373 - $405
Arroyo Seco	2019	44	—	44	—	—	$406 - $458
City of Chandler:							
Hawthorn Manor	2017	84	46	38	12	15	$500 - $564
Mission Estates	2019	26	—	26	—	—	$564 - $592
Windermere Ranch	2019	91	—	91	—	—	$448 - $476
City of Gilbert:							
Artisan at Morrison Ranch	2016	105	104	1	1	19	$340 - $393
The Preserve at Adora Trails	2017	82	55	27	23	21	$420 - $463
Marathon Ranch	2018	63	—	63	13	—	$506 - $549
Lakes At Annecy	2019	216	—	216	—	—	$280 - $333
Lakeview Trails	2019	92	—	92	—	—	$468 - $560
Copper Bend	2019	38	—	38	—	—	$451 - $484
Hamstra Assemblage	2020	86	—	86	—	—	$470 - $750
City of Goodyear:							
Villages at Rio Paseo	2018	117	2	115	10	2	$204 - $218
Cottages at Rio Paseo	2018	93	6	87	24	6	$238 - $257
City of Mesa:							
Kinetic Point at Eastmark	2013	80	77	3	3	—	$297 - $376
Curie Court at Eastmark	2016	106	91	15	15	33	$297 - $376
The Vista at Granite Crossing	2018	37	—	37	22	—	$438 - $513
Electron at Eastmark	2019	53	—	53	—	—	$355 - $405
Town of Peoria:							
Legacy at The Meadows	2017	74	51	23	14	25	$425 - $451
Estates at The Meadows	2017	272	60	212	42	17	$484 - $558
Enclave at The Meadows	2018	126	13	113	12	13	$385 - $480
Riverwalk	2019	94	—	94	—	—	$494 - $547
City of Phoenix:							
Navarro Groves	2018	54	—	54	21	—	$429 - $474
Avance	2019	394	—	394	—	—	$342 - $598
Town of Queen Creek:							
Spur Cross	2020	118	—	118	—	—	$454 - $544
Closed Communities	N/A	—	—	—	—	23	
Phoenix, Arizona Total		2,643	572	2,071	224	192	
Tucson, Arizona							
Oro Valley:							
Desert Crest - Center Pointe Vistoso	2016	103	67	36	11	18	$262 - $307
The Cove - Center Pointe Vistoso	2016	83	68	15	8	19	$345 - $405

Summit N & S - Center Pointe Vistoso	2016	88	74	14	9	9	\$397 - \$432
The Pinnacle - Center Pointe Vistoso	2016	69	63	6	4	3	\$448 - \$480
Closed Communities	N/A	—	—	—	—	5	
Tucson, Arizona Total		343	272	71	32	54	
Maracay Total		2,986	844	2,142	256	246	

Pardee Homes

County, Project, City	Year of First Delivery[1]	Total Number of Lots[2]	Cumulative Homes Delivered as of June 30, 2018	Lots Owned as of June 30, 2018[3]	Backlog as of June 30, 2018[4][5]	Homes Delivered for the Six Months Ended June 30, 2018	Sales Price Range (in thousands)[6]
California							
San Diego County:							
Almeria	2017	80	36	44	26	21	$1,440 - $1,550
Olvera	2017	84	46	38	27	31	$1,315 - $1,470
Vista Santa Fe	2019	44	—	44	—	—	$1,750 - $1,895
Sendero	2019	112	—	112	—	—	$1,175 - $1,275
Terraza	2019	81	—	81	—	—	$1,290 - $1,380
Carmel	2019	105	—	105	—	—	$1,425 - $1,525
Vista Del Mar	2019	79	—	79	—	—	$1,550 - $1,700
Pacific Highlands Ranch Future	TBD	115	—	115	—	—	TBD
Sandstone	2018	81	9	72	33	9	$640 - $700
Lake Ridge	2018	129	—	129	45	—	$710 - $860
Azul	2017	121	110	11	11	46	$360 - $475
Veraz	2018	111	—	111	—	—	$380 - $460
Moderna	2018	44	—	44	—	—	$355 - $440
Ocean View Hills Future	2019	359	—	359	—	—	TBD
Meadowood	TBD	845	—	845	—	—	$290 - $590
South Otay Mesa	TBD	893	—	893	—	—	TBD
Los Angeles County:							
Verano	2017	95	23	72	15	14	$560 - $660
Arista	2017	112	50	62	9	20	$700 - $785
Cresta	2018	67	—	67	15	5	$790 - $865
Aliento - 55x100	2018	94	—	94	—	—	TBD
Lyra	2019	84	—	84	—	—	$648 - $715
Sola	2019	73	—	73	—	—	$540 - $570
Skyline Ranch Future	TBD	1,063	—	1,063	—	—	$550 - $810
Riverside County:							
Vantage	2016	101	66	35	29	14	$390 - $410
Overlook	2016	112	111	1	1	21	$320 - $355
Aura	2017	100	64	36	17	16	$370 - $385
Starling	2018	68	33	35	4	18	$420 - $430
Canyon Hills Future 70 x 115	TBD	125	—	125	—	—	TBD
Village @ Lakeshore	2020	163	—	163	—	—	$310 - $325
Skycrest	2015	125	123	2	2	16	$378 - $400
Flagstone	2016	79	75	4	1	11	$430 - $450
Elara	2016	245	162	83	18	43	$300 - $325
Daybreak	2017	158	45	113	16	20	$345 - $375
Cascade	2017	151	42	109	47	15	$300 - $320
Abrio	2018	126	—	126	25	—	$390 - $415
Beacon	2018	106	—	106	19	—	$455 - $500

PA13	2019	90	—	90	—	—	TBD
Sundance Future	TBD	43	—	43	—	—	TBD
Vita	2019	152	—	152	—	—	$305 - $315
Avid	2019	103	—	103	—	—	$335 - $355
Elan	2019	81	—	81	—	—	$400 - $420
Mira	2018	92	—	92	—	—	$375 - $395
Sundance Future Active Adult	TBD	276	—	276	—	—	TBD
Avena	2018	84	2	82	16	2	$450 - $475
Tamarack	2018	84	17	67	31	17	$470 - $510
Braeburn	2018	82	—	82	3	—	TBD
Canvas	2018	89	—	89	3	—	$400 - $420
Kadence	2018	85	—	85	1	—	$420 - $440

Newpark	2018	93	—	93	—	—	$445 - $480
Easton	2018	92	—	92	3	—	$470 - $520
Tournament Hills Future	TBD	268	—	268	—	—	TBD
Banning	2020	4,386	—	4,386	—	—	TBD
San Joaquin County:							
Bear Creek	TBD	1,252		1,252	—	—	TBD
Closed Communities		—	—	—	—	80	
California Total		13,882	1,014	12,868	417	419	
Nevada							
Clark County:							
North Peak	2015	178	159	19	16	37	$312 - $370
Castle Rock	2015	181	152	29	26	36	$360 - $455
Camino	2016	86	85	1	1	1	$256 - $270
Escala	2016	103	61	42		8	$520 - $590
Montero	2016	77	72	5	5	15	$432 - $510
Strada	2017	119	33	86	17	9	$420 - $470
Linea	2018	90	2	88	40	2	$350 - $390
Meridian	2016	62	55	7	3	13	$595 - $690
Pebble Estate Future	TBD	8	—	8	—	—	TBD
Encanto	2016	51	44	7	2	10	$475 - $530
Luma	2018	63	5	58	20	5	$480 - $525
Evolve	2019	70	—	70	—	—	TBD
Horizon Terrace	2014	165	161	4	4	26	$415 - $470
Corterra	2018	112	—	112	—	—	$450 - $500
Keystone	2017	70	41	29	19	17	$460 - $550
Cobalt	2017	121	17	104	21	12	$375 - $450
Onyx	2018	74	—	74	8	—	$450 - $480
Axis	2017	78	16	62	23	6	$850 - $1,125
The Canyons at MacDonald Ranch - R	2019	22	—	22	—	—	$515 - $585
The Canyons at MacDonald Ranch - H	2020	82	—	82	—	—	$540 - $585
Pivot	2017	88	26	62	11	16	$400 - $460
Strada at Pivot	2017	27	17	10	7	10	$450 - $480
Nova Ridge	2018	108	7	101	34	6	$660 - $810
Tera Luna	2018	116	—	116	2	—	$545 - $660
Indogo	2018	202	—	202	16	—	$300 - $350
Larimar	2018	170	—	170	3	—	$320 - $360
Blackstone	2018	140	—	140	—	—	$369 - $430
Cactus/Jones	2019	54	—	54	—	—	$349 - $375
Sandalwood	2020	117	—	117	—	—	TBD
Closed Communities	N/A	—	—	—	—	3	
Nevada Total		2,834	953	1,881	278	232	
Pardee Total		16,716	1,967	14,749	695	651	

Quadrant Homes

County, Project, City	Year of First Delivery(1)	Total Number of Lots(2)	Cumulative Homes Delivered as of June 30, 2018	Lots Owned as of June 30, 2018(3)	Backlog as of June 30, 2018(4)(5)	Homes Delivered for the Six Months Ended June 30, 2018	Sales Price Range (in thousands)(6)
Washington							
Snohomish County:							
The Grove at Canyon Park, Bothell	2017	60	57	3	3	19	$760 - $785
Greenstone Heights, Bothell	2017	41	13	28	21	11	$955 - $1,140
Grove North, Bothell	2019	43	—	43	—	—	$790 - $925
Grove South, Bothell	2019	9	—	9	—	—	$805 - $840
King County:							
Vareze, Kirkland	2019	82	—	82	—	—	$700 - $940
Hazelwood Ridge, Newcastle	2017	30	28	2	—	6	$1,174
Inglewood Landing, Sammamish	2018	21	—	21	6	—	$1,150 - $1,330
Jacobs Landing, Sammamish	2017	20	4	16	10	3	$1,160 - $1,280
Kirkwood Terrace, Sammamish	2018	12	—	12	—	—	$1,700 - $1,890
English Landing P2, Redmond	2017	25	20	5	5	13	$1,164 - $1,344
English Landing P1, Redmond	2018	50	—	50	27	—	$1,170 - $1,425
Cedar Landing, North Bend	2019	138	—	138	—	—	$685 - $860
Monarch Ridge, Sammamish	2019	59	—	59	—	—	$970 - $1,145
Overlook at Summit Park, Maple Valley	2019	126	—	126	—	—	$615 - $770
Ray Meadows, Redmond	2018	27	—	27	—	—	$1,165 - $1,390
Wynstone, Federal Way	TBD	4	—	4	—	—	TBD
Canton Crossing, Maple Valley	2017	51	39	12	10	23	$580 - $665
Aurea, Sammamish	2019	41	—	41	—	—	$690 - $880
Aldea (Avalon Townhomes), Newcastle	2019	129	—	129	—	—	$715 - $925
Lario, Bellevue	2019	46	—	46	—	—	$810 - $1,140
Soundview Manor, Federal Way	2018	21	—	21	—	—	$566 - $660
Eagles Glen, Sammamish	2019	10	—	10	—	—	$1,100 - $1,225
Pierce County:							
Harbor Hill S-5/6, Gig Harbor	2017	72	41	31	16	18	$453 - $523
Harbor Hill S-2, Gig Harbor	2017	41	23	18	7	16	$425 - $480
Kitsap County:							
Mountain Aire, Poulsbo	2016	145	109	36	33	32	$422 - $499
Winslow Grove, Bainbridge Island	2018	19	—	19	—	—	$1,097 - $1,242
Blue Heron, Poulsbo	2020	85	—	85	—	—	$474 - $649
Closed Communities	N/A	—	—	—	—	27	N/A
Washington Total		1,407	334	1,073	138	168	
Quadrant Total		1,407	334	1,073	138	168	

Trendmaker Homes

County, Project, City	Year of First Delivery(1)	Total Number of Lots(2)	Cumulative Homes Delivered as of June 30, 2018	Lots Owned as of June 30, 2018(3)	Backlog as of June 30, 2018(4)(5)	Homes Delivered for the Six Months Ended June 30, 2018	Sales Price Range (in thousands)(6)
Texas							
Brazoria County:							
Pomona, Manvel	2015	49	24	25	5	3	$375 - $471
Rise Meridiana	2016	47	24	23	3	7	$292 - $350
Fort Bend County:							
Cross Creek Ranch 60', Fulshear	2013	43	21	22	4	6	$369 - $453
Cross Creek Ranch 65', Fulshear	2013	74	60	14	6	9	$436 - $509
Cross Creek Ranch 70', Fulshear	2013	111	82	29	7	10	$490 - $553
Cross Creek Ranch 80', Fulshear	2013	63	43	20	6	3	$571 - $676
Cross Creek Ranch 90', Fulshear	2013	34	28	6	—	2	$653 - $733
Fulshear Run 1/2 Acre, Richmond	2016	54	20	34	11	2	$567 - $679
Harvest Green 75', Richmond	2015	38	22	16	7	2	$467 - $543
Sienna Plantation 85', Missouri City	2015	39	21	18	4	5	$546 - $645
Villas at Aliana, Richmond	2013	117	115	2	1	9	$487
Harris County:							
The Groves, Humble	2015	103	59	44	8	4	$323 - $524
Lakes of Creekside	2015	21	10	11	2	1	$512 - $585
Bridgeland '80, Cypress	2015	135	110	25	12	9	$548 - $636
Bridgeland Patio, Cypress 60'	2017	32	25	7	3	10	$415 - $422
Bridgeland 70'	2018	19	—	19	4	—	$461 - $542
Villas at Bridgeland 50'	2018	13	—	13	2	—	$350 - $383
Elyson 70', Cypress	2016	20	11	9	—	3	$484
Hidden Arbor, Cypress	2015	129	113	16	6	25	$419 - $543
Clear Lake, Houston	2015	778	355	423	74	47	$335 - $663
Montgomery County:							
Woodtrace, Woodtrace	2014	39	35	4	1	5	$498 - $550
Northgrove, Tomball	2015	25	7	18	—	2	TBD
Bender's Landing Estates, Spring	2014	104	76	28	7	16	$470 - $579
The Woodlands, Creekside Park	2015	109	55	54	13	16	$413 - $639
Royal Brook, Porter	2019	6	—	6	—	—	TBD
Waller County:							
Cane Island, Katy	2015	23	22	1	—	2	$525 - $634
LakeHouse	2019	350	—	350	—	—	TBD
Williamson County:							
Crystal Falls	2016	29	20	9	4	4	522
Rancho Sienna 60'	2016	32	11	21	4	7	$350 - $422
Rancho Sienna 80'	2018	5	—	5	3	—	TBD
Highlands at Mayfield Ranch 50'	2018	35	5	30	1	—	$280 - $330
Highlands at Mayfield Ranch 60'	2018	19	—	19	2	—	$340 - $406
Rancho Sienna 50'	2019	7	—	7	—	—	TBD

Palmera Ridge	2019	11	—	11	—	—	TBD
Hays County:							
Belterra 60', Austin	2017	36	16	20	2	7	$375 - $466
Belterra 80', Austin	2016	37	25	12	3	7	$535 - $603
Headwaters, Dripping Springs	2017	30	14	16	10	7	$399 - $450
Travis County:							
Lakes Edge 70'	2018	45	3	42	27	3	$650 - $835
Lakes Edge 80'	2018	14	—	14	8	—	$650 - $835
Closed Communities	N/A	—	—	—	—	6	
Texas Total		2,875	1,432	1,443	250	239	
Trendmaker Homes Total		2,875	1,432	1,443	250	239	

TRI Pointe Homes

County, Project, City	Year of First Delivery(1)	Total Number of Lots(2)	Cumulative Homes Delivered as of June 30, 2018	Lots Owned as of June 30, 2018(3)	Backlog as of June 30, 2018(4)(5)	Homes Delivered for the Six Months Ended June 30, 2018	Sales Price Range (in thousands)(6)
Southern California							
Orange County:							
Aria, Rancho Mission Viejo	2016	151	115	36	26	20	$636 - $713
Aubergine, Rancho Mission Viejo	2016	66	65	1	1	7	$983 - $1,129
Viridian	2018	72	—	72	12	—	$893 - $965
Carlisle 10-Pack Garden Court, Irvine	2017	74	64	10	8	41	$712 - $842
Sterling Row Townhomes, Irvine	2017	96	59	37	34	37	$622 - $824
Varenna at Orchard Hills, Irvine	2016	60	54	6	15	15	$1,217 - $1,275
Alston, Anaheim	2017	75	33	42	18	14	$816 - $853
StrataPointe, Buena Park	2017	149	80	69	42	26	$558 - $720
Cadence (Lyric)	2019	70	—	70	—	—	$790 - $917
San Diego County:							
Prism at Weston	2018	142	5	137	21	5	$590 - $629
Talus at Weston	2018	63	—	63	28	—	$680 - $720
Riverside County:							
Terrassa Court, Corona	2015	94	87	7	3	20	$509 - $566
Terrassa Villas, Corona	2015	52	24	28	22	10	$486 - $547
Los Angeles County:							
VuePointe, El Monte	2017	102	49	53	38	35	$509 - $629
Bradford @ Rosedale, Azusa	2017	52	30	22	18	15	$836 - $896
Lucera at Aliento	2017	67	41	26	10	18	$625 - $645
Tierno at Aliento	2017	63	45	18	3	18	$669 - $697
Tierno II at Aliento	2018	—	—	—	6	—	$669 - $697
Paloma at West Creek	2018	155	—	155	39	—	$448 - $503
San Bernardino County:							
St. James at Park Place, Ontario	2015	125	119	6	—	10	$514 - $544
St. James III at Park Place, Ontario	2018	82	—	82	20	—	$514 - $544
Closed Communities	N/A	—	—	—	—	22	
Southern California Total		1,810	870	940	364	313	
Northern California							
Contra Costa County:							
Marquette at Barrington, Brentwood	2015	90	86	4	—	11	$695 - $730
Wynstone at Barrington, Brentwood	2017	92	52	40	14	16	$518 - $634
Santa Clara County:							
Madison Gate	2018	65	3	62	14	3	$690 - $975
Solano County:							
Redstone, Vacaville	2015	141	125	16	10	19	$485 - $548
Green Valley-Bloom, Fairfield	2018	91	5	86	24	5	$530 - $575
Green Valley-Harvest, Fairfield	2018	56	3	53	19	3	$575 - $630

Villages of Fairfield	2018	133	—	133	—	—	$455 - $480
San Joaquin County:							
Sundance, Mountain House	2015	113	107	6	—	2	$595 - $675
Sundance II, Mountain House	2017	138	32	106	22	29	$600 - $710
Alameda County:							
Linear, Alameda Landing	2015	106	105	1	1	20	$779 - $955
Commercial, Alameda Landing	2018	2	—	2	—	—	$620
Blackstone at the Cannery, Hayward SFA	2016	105	94	11	8	20	$666 - $769
Slate at Jordan Ranch, Dublin	2017	56	36	20	13	20	$1,070 - $1,189
Onyx at Jordan Ranch, Dublin	2017	105	28	77	18	19	$875 - $925
Quartz at Jordan Ranch, Dublin	2018	45	—	45	25	—	$855 - $1,000
Mission Stevenson, Fremont	2018	77	—	77	36	—	$675 - $965

Palm Avenue, Fremont	2018	31	—	31	—	—	$2,080 - $2,235
Pleasant Hill	2019	44	—	44	—	—	$875 - $945
Parkside, Oakland	2019	128	—	128	—	—	$720 - $805
Sacramento County:							
Natomas	2019	94	—	94	—	—	$356 - $396
San Francisco County:							
Cambridge Street SFA	2020	54	—	54	—	—	$985 - $1,200
Closed Communities	N/A	—	—	—	—	17	
Northern California Total		1,766	676	1,090	204	184	
California Total		3,576	1,546	2,030	568	497	
Colorado							
Douglas County:							
Terrain Ravenwood Village (3500)	2018	157	15	142	33	15	$382 - $432
Terrain Ravenwood Village (4000)	2018	100	14	86	17	14	$412 - $475
Jefferson County:							
Candelas 6000 Series, Arvada	2015	76	72	4	1	19	$534 - $671
Candelas 3500 Series, Arvada	2016	97	53	44	32	17	$416 - $466
Candelas 5000 Series, Arvada	2017	62	23	39	21	14	$532 - $581
Candelas 4000 Series, Arvada	2018	29	—	29	—	—	$458 - $515
Crown Pointe, Westminster	2018	64	—	64	—	—	$430 - $490
Arapahoe County:							
Whispering Pines, Aurora	2015	115	44	71	23	17	$605 - $670
Adams County:							
Amber Creek, Thornton	2017	121	46	75	33	17	$406 - $486
Closed Communities	N/A	—	—	—	—	6	
Colorado Total		821	267	554	160	119	
TRI Pointe Total		4,397	1,813	2,584	728	616	

Winchester Homes

County, Project, City	Year of First Delivery(1)	Total Number of Lots(2)	Cumulative Homes Delivered as of June 30, 2018	Lots Owned as of June 30, 2018(3)	Backlog as of June 30, 2018(4)(5)	Homes Delivered for the Six Months Ended June 30, 2018	Sales Price Range (in thousands)(6)
Maryland							
Anne Arundel County:							
Two Rivers Townhomes, Crofton	2017	84	24	60	16	16	\$450 - \$560
Two Rivers Cascades SFD, Crofton	2018	25	3	22	12	3	\$575 - \$625
Watson's Glen, Millersville	2015	103	4	99	—	—	Closed
Frederick County:							
Landsdale, Monrovia							
Landsdale SFD	2015	222	105	117	19	19	\$495 - \$597
Landsdale Townhomes	2015	100	61	39	15	14	\$330 - \$383
Landsdale TND Neo SFD	2015	77	33	44	7	6	\$440 - \$473
Montgomery County:							
Cabin Branch, Clarksburg							
Cabin Branch SFD	2014	359	166	193	28	22	\$510 - \$745
Cabin Branch Avenue Townhomes	2017	121	38	83	4	14	\$420 - \$485
Cabin Branch Townhomes	2014	507	251	256	10	30	\$393 - \$438
Preserve at Stoney Spring	N/A	5	—	5	—	—	N/A
Poplar Run SFD, Silver Spring	2010	305	294	11	10	13	\$635 - \$770
Glenmont MetroCenter, Silver Spring	2016	171	57	114	11	21	\$435 - \$513
Chapman Row, Rockville	2019	61	—	61	—	—	TBD
Randolph Farms, Rockville	2019	104	—	104	—	—	TBD
Closed Communities	N/A	—	—	—	—	8	
Maryland Total		2,244	1,036	1,208	132	166	
Virginia							
Fairfax County:							
Stuart Mill & Timber Lake, Oakton	2014	14	11	3	3	2	\$1,363 - \$1,675
Stuart Mill, Oakton	N/A	5	—	5	—	—	N/A
Westgrove, Fairfax	2018	24	—	24	1	—	\$996 - \$1,102
West Oaks Corner, Fairfax	2019	188	—	188	—	—	TBD
Prince William County:							
Villages of Piedmont, Haymarket	2015	168	140	28	15	31	\$373 - \$460
Loudoun County:							
Brambleton, Ashburn							
West Park SFD	2018	30	7	23	13	7	\$708 - \$724
Birchwood AA	2018	16	—	16	9	—	\$574 - \$629
Vistas at Lansdowne, Lansdowne	2015	120	81	39	20	10	\$531 - \$571
Willowsford Grant II, Aldie	2017	44	13	31	11	3	\$950 - \$1,226
Willowsford Greens, Aldie	N/A	5	—	5	—	—	N/A
Closed Communities	N/A	—	—	—	—	—	
Virginia Total		614	252	362	72	53	
Winchester Total		2,858	1,288	1,570	204	219	

Combined Company Total	31,239	7,678	23,561	2,271	2,139

(1) Year of first delivery for future periods is based upon management's estimates and is subject to change.

(2) The number of homes to be built at completion is subject to change, and there can be no assurance that we will build these homes.

(3) Owned lots as of June 30, 2018 include owned lots in backlog as of June 30, 2018.

(4) Backlog consists of homes under sales contracts that have not yet been delivered, and there can be no assurance that delivery of sold homes will occur.

(5) Of the total homes subject to pending sales contracts that have not been delivered as of June 30, 2018, 1,762 homes are under construction, 239 homes have completed construction, and 270 homes have not started construction.

(6) Sales price range reflects base price only and excludes any lot premium, buyer incentives and buyer-selected options, which may vary from project to project. Sales prices for homes required to be sold pursuant to affordable housing requirements are excluded from sales price range. Sales prices reflect current pricing and might not be indicative of past or future pricing.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations is based on our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, which have been prepared in accordance with GAAP. Our condensed notes to the unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q and the audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 describe the significant accounting policies essential to our unaudited condensed consolidated financial statements. The preparation of our financial statements requires our management to make estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions that we have used are appropriate and correct based on information available at the time they were made. These estimates, judgments and assumptions can affect our reported assets and liabilities as of the date of the financial statements, as well as the reported revenues and expenses during the period presented. If there is a material difference between these estimates, judgments and assumptions and actual facts, our financial statements may be affected.

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

Except for accounting policies related to our adoption of ASC 606, there have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. See Note 1, Organization, Basis of Presentation and Summary of Significant Accounting Policies, to the accompanying condensed notes to unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q for the critical accounting policies resulting from our adoption of ASC 606.

Recently Issued Accounting Standards

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks related to fluctuations in interest rates on our outstanding debt. We did not utilize swaps, forward or option contracts on interest rates or commodities, or other types of derivative financial instruments as of or during the six months ended June 30, 2018. We did not enter into during the six months ended June 30, 2018, and currently do not hold, derivatives for trading or speculative purposes.

Item 4. Controls and Procedures

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

Exchange Act. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2018.

Our management, including our Principal Executive Officer and Principal Financial Officer, has evaluated our internal control over financial reporting to determine whether any change occurred during the three months ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the three months ended June 30, 2018.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017. If any of the risks discussed in our Annual Report on Form 10-K occur, our business, prospects, liquidity, financial condition and results of operations could be materially and adversely affected, in which case the trading price of our common stock could decline significantly and you could lose all or a part of your investment. Some statements in this Quarterly Report on Form 10-Q constitute forward-looking statements. Please refer to Part I, Item 2 of this Quarterly Report on Form 10-Q entitled “Cautionary Note Concerning Forward-Looking Statements.”

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

On February 16, 2018, our board of directors discontinued and cancelled the 2017 Repurchase Program and approved the 2018 Repurchase Program, authorizing the repurchase of shares of common stock with an aggregate value of up to $100 million through March 31, 2019. Purchases of common stock pursuant to the 2018 Repurchase Program may be made in open market transactions effected through a broker-dealer at prevailing market prices, in block trades, or by other means in accordance with federal securities laws, including pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 under the Exchange Act. We are not obligated under the 2018 Repurchase Program to repurchase any specific number or dollar amount of shares of common stock, and we may modify, suspend or discontinue the 2018 Repurchase Program at any time. Our management will determine the timing and amount of repurchase in its discretion based on a variety of factors, such as the market price of our common stock, corporate requirements, general market economic conditions and legal requirements. During the six months ended June 30, 2018, we did not repurchase any shares under either the 2017 Repurchase Program or the 2018 Repurchase Program.

Item 6. Exhibits

Exhibit Number	Exhibit Description
3.1	Amended and Restated Certificate of Incorporation of TRI Pointe Group, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (filed July 7, 2015))
3.2	Amended and Restated Bylaws of TRI Pointe Group, Inc. (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K (filed October 27, 2016))
31.1	Chief Executive Officer Section 302 Certification of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer Section 302 Certification of the Sarbanes-Oxley Act of 2002
32.1	Chief Executive Officer Section 906 Certification of the Sarbanes-Oxley Act of 2002
32.2	Chief Financial Officer Section 906 Certification of the Sarbanes-Oxley Act of 2002
101	The following materials from TRI Pointe Group, Inc.’s Quarterly Report on Form 10-Q for the six months ended June 30, 2018, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statement of Cash Flows, and (v) Condensed Notes to Consolidated Financial Statement.

SIGNATURES

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

	TRI Pointe Group, Inc.
	By: /s/ Douglas F. Bauer
	Douglas F. Bauer
	Chief Executive Officer
	By: /s/ Michael D. Grubbs
	Michael D. Grubbs
Date: July 27, 2018	Chief Financial Officer