

**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 September 30, 2019
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
(State or other Jurisdiction of
Incorporation or Organization)

61-1763235
(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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	TPH	New York Stock Exchange

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 ☒

139,237,697 shares of the registrant's common stock were issued and outstanding as of October 14, 2019.

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 consolidated subsidiaries.

TRI POINTE GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q
INDEX
September 30, 2019

	<u>Page Number</u>
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	<u>3</u>
<u>Consolidated Balance Sheets as of September 30, 2019 (unaudited) and December 31, 2018</u>	<u>3</u>
<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2019 and 2018 (unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Equity for the Three and Nine Months Ended September 30, 2019 and 2018 (unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2019 and 2018 (unaudited)</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements (unaudited)</u>	<u>8</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>36</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>59</u>
Item 4. <u>Controls and Procedures</u>	<u>59</u>
<u>Part II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>60</u>
Item 1A. <u>Risk Factors</u>	<u>60</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>60</u>
Item 6. <u>Exhibits</u>	<u>61</u>
<u>SIGNATURES</u>	<u>62</u>

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
	(unaudited)	
Assets		
Cash and cash equivalents	\$ 130,262	\$ 277,696
Receivables	70,507	51,592
Real estate inventories	3,345,390	3,216,059
Investments in unconsolidated entities	4,207	5,410
Goodwill and other intangible assets, net	160,026	160,427
Deferred tax assets, net	57,275	67,768
Other assets	173,804	105,251
Total assets	<u>\$ 3,941,471</u>	<u>\$ 3,884,203</u>
Liabilities		
Accounts payable	\$ 81,279	\$ 81,313
Accrued expenses and other liabilities	315,436	335,149
Loans payable	400,000	—
Senior notes, net	1,033,058	1,410,804
Total liabilities	<u>1,829,773</u>	<u>1,827,266</u>
Commitments and contingencies (Note 13)		
Equity		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized; no shares issued and outstanding as of September 30, 2019 and December 31, 2018, respectively	—	—
Common stock, \$0.01 par value, 500,000,000 shares authorized; 139,237,697 and 141,661,713 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	1,392	1,417
Additional paid-in capital	624,312	658,720
Retained earnings	1,485,981	1,396,787
Total stockholders' equity	<u>2,111,685</u>	<u>2,056,924</u>
Noncontrolling interests	13	13
Total equity	<u>2,111,698</u>	<u>2,056,937</u>
Total liabilities and equity	<u>\$ 3,941,471</u>	<u>\$ 3,884,203</u>

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Homebuilding:				
Home sales revenue	\$ 746,269	\$ 771,768	\$ 1,931,110	\$ 2,123,135
Land and lot sales revenue	607	2,225	6,819	3,966
Other operations revenue	618	598	1,853	1,795
Total revenues	747,494	774,591	1,939,782	2,128,896
Cost of home sales	577,627	607,053	1,573,847	1,661,651
Cost of land and lot sales	495	2,234	7,552	4,163
Other operations expense	609	590	1,826	1,781
Sales and marketing	47,834	44,854	133,888	128,881
General and administrative	38,751	38,109	114,202	111,406
Homebuilding income from operations	82,178	81,751	108,467	221,014
Equity in income (loss) of unconsolidated entities	18	15	(33)	(384)
Other income (expense), net	325	(477)	6,719	(379)
Homebuilding income before income taxes	82,521	81,289	115,153	220,251
Financial Services:				
Revenues	901	480	1,959	1,154
Expenses	817	125	1,765	391
Equity in income of unconsolidated entities	2,114	1,986	4,861	4,972
Financial services income before income taxes	2,198	2,341	5,055	5,735
Income before income taxes	84,719	83,630	120,208	225,986
Provision for income taxes	(21,858)	(19,661)	(31,014)	(55,457)
Net income	\$ 62,861	\$ 63,969	\$ 89,194	\$ 170,529
Earnings per share				
Basic	\$ 0.45	\$ 0.43	\$ 0.63	\$ 1.13
Diluted	\$ 0.44	\$ 0.43	\$ 0.63	\$ 1.13
Weighted average shares outstanding				
Basic	141,088,381	147,725,074	141,729,759	150,377,472
Diluted	141,533,546	148,318,032	142,128,786	151,482,456

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 June 30, 2019	142,258,663	\$ 1,423	\$ 662,087	\$ 1,423,120	\$ 2,086,630	\$ 13	\$ 2,086,643
Net income	—	—	—	62,861	62,861	—	62,861
Shares issued under share-based awards	14,454	—	101	—	101	—	101
Minimum tax withholding paid on behalf of employees for restricted stock units	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	3,828	—	3,828	—	3,828
Share repurchases	(3,035,420)	(31)	(41,704)	—	(41,735)	—	(41,735)
Balance at September 30, 2019	139,237,697	\$ 1,392	\$ 624,312	\$ 1,485,981	\$ 2,111,685	\$ 13	\$ 2,111,698
	Number of Shares of Common Stock (Note 1)	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2018	141,661,713	\$ 1,417	\$ 658,720	\$ 1,396,787	\$ 2,056,924	\$ 13	\$ 2,056,937
Net income	—	—	—	89,194	89,194	—	89,194
Shares issued under share-based awards	611,404	6	294	—	300	—	300
Minimum tax withholding paid on behalf of employees for restricted stock units	—	—	(3,612)	—	(3,612)	—	(3,612)
Stock-based compensation expense	—	—	10,614	—	10,614	—	10,614
Share repurchases	(3,035,420)	(31)	(41,704)	—	(41,735)	—	(41,735)
Balance at September 30, 2019	139,237,697	\$ 1,392	\$ 624,312	\$ 1,485,981	\$ 2,111,685	\$ 13	\$ 2,111,698
	Number of Shares of Common Stock (Note 1)	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at June 30, 2018	152,027,014	\$ 1,520	\$ 796,746	\$ 1,233,436	\$ 2,031,702	\$ 604	\$ 2,032,306
Net income	—	—	—	63,969	63,969	—	63,969
Shares issued under share-based awards	27,308	1	309	—	310	—	310
Stock-based compensation expense	—	—	3,765	—	3,765	—	3,765
Share repurchases	(9,852,009)	(99)	(139,250)	—	(139,349)	—	(139,349)
Balance at September 30, 2018	142,202,313	\$ 1,422	\$ 661,570	\$ 1,297,405	\$ 1,960,397	\$ 604	\$ 1,961,001
	Number of Shares of Common Stock (Note 1)	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2017	151,162,999	\$ 1,512	\$ 793,980	\$ 1,134,230	\$ 1,929,722	\$ 605	\$ 1,930,327
Cumulative effect of accounting change	—	—	—	(7,354)	(7,354)	—	(7,354)
Net income	—	—	—	170,529	170,529	—	170,529
Shares issued under share-based awards	891,323	9	1,934	—	1,943	—	1,943
Minimum tax withholding paid on behalf of employees for restricted stock units	—	—	(6,049)	—	(6,049)	—	(6,049)
Stock-based compensation expense	—	—	10,955	—	10,955	—	10,955
Share repurchases	(9,852,009)	(99)	(139,250)	—	(139,349)	—	(139,349)
Distributions to noncontrolling interests, net	—	—	—	—	—	(1)	(1)
Balance at September 30, 2018	142,202,313	\$ 1,422	\$ 661,570	\$ 1,297,405	\$ 1,960,397	\$ 604	\$ 1,961,001

See accompanying condensed notes to the unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 89,194	\$ 170,529
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	18,357	19,581
Equity in income of unconsolidated entities, net	(4,828)	(4,588)
Deferred income taxes, net	10,493	19,729
Amortization of stock-based compensation	10,614	10,955
Charges for impairments and lot option abandonments	6,519	1,500
Changes in assets and liabilities:		
Real estate inventories	(142,599)	(315,825)
Receivables	(18,915)	40,612
Other assets	(9,086)	(14,486)
Accounts payable	(34)	10,841
Accrued expenses and other liabilities	(60,239)	(17,716)
Returns on investments in unconsolidated entities, net	6,215	6,778
Net cash used in operating activities	(94,309)	(72,090)
Cash flows from investing activities:		
Purchases of property and equipment	(22,392)	(24,547)
Proceeds from sale of property and equipment	46	8
Investments in unconsolidated entities	(712)	(1,812)
Net cash used in investing activities	(23,058)	(26,351)
Cash flows from financing activities:		
Borrowings from debt	400,000	100,000
Repayment of debt	(381,895)	(57,931)
Debt issuance costs	(3,125)	—
Distributions to noncontrolling interests	—	(1)
Proceeds from issuance of common stock under share-based awards	300	1,943
Minimum tax withholding paid on behalf of employees for share-based awards	(3,612)	(6,049)
Share repurchases	(41,735)	(139,349)
Net cash used in financing activities	(30,067)	(101,387)
Net decrease in cash and cash equivalents	(147,434)	(199,828)
Cash and cash equivalents—beginning of period	277,696	282,914
Cash and cash equivalents—end of period	\$ 130,262	\$ 83,086

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 is engaged in the design, construction and sale of innovative single-family attached and detached homes through its portfolio of six quality brands across nine states, including Maracay in Arizona, Pardee Homes in California and Nevada, Quadrant Homes in Washington, Trendmaker Homes in Texas, TRI Pointe Homes in California, Colorado and North Carolina 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, 2018. In the opinion of management, all adjustments consisting of normal recurring adjustments, necessary for a fair presentation with respect to interim financial statements, have been included. The results for the three and nine months ended September 30, 2019 are not necessarily indicative of the results to be expected for the full year ending December 31, 2019 due to seasonal variations and other factors.

The consolidated financial statements include the accounts of TRI Pointe Group and its wholly owned subsidiaries, as well as other entities in which TRI Pointe Group has a controlling interest and variable interest entities ("VIEs") in which TRI Pointe Group is the primary beneficiary. The noncontrolling interests as of September 30, 2019 and December 31, 2018 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.

Revenue Recognition

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

Home sales revenue

We generate the majority of our total revenues from home sales, which consists of our core business operation of building and delivering completed homes to homebuyers. Home sales revenue and related profit is generally recognized when title to and possession of the home is transferred to the homebuyer at the home closing date. Our performance obligation to deliver the agreed-upon home is generally satisfied in less than one year from the original contract date. Included in home sales revenue are forfeited deposits, which occur when homebuyers cancel home purchase contracts that include a nonrefundable deposit. Both revenue from forfeited deposits and deferred revenue resulting from uncompleted performance obligations existing at the time we deliver new homes to our homebuyers are immaterial.

Land and lot sales revenue

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 homebuilding other 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 842, *Leases*. We do not recognize a material profit on this ground lease.

Financial services revenues

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

Mortgage financing operations

TRI Pointe Connect was formed as a joint venture with an established mortgage lender and is accounted for under the equity method of accounting. We record a percentage of income earned by TRI Pointe Connect based on our ownership percentage in this joint venture. TRI Pointe Connect activity appears as equity in income of unconsolidated entities under the Financial Services section of our consolidated statements of operations.

Title and escrow services operations

TRI Pointe Assurance provides title examinations for our homebuyers in Austin, Colorado and Maryland and both title examinations and escrow services for our homebuyers in Arizona, Nevada, Texas and Virginia. TRI Pointe Assurance is a wholly owned subsidiary of TRI Pointe and acts as a title agency for First American Title Insurance Company. Revenue from our title and escrow services operations is fully recognized at the time of the consummation of the home sales transaction, at which time no further performance obligations are left to be satisfied. TRI Pointe Assurance revenue is included in the Financial Services section of our consolidated statements of operations.

Property and casualty insurance agency operations

TRI Pointe Advantage is a wholly owned subsidiary of TRI Pointe and provides property and casualty insurance agency services that help facilitate the closing process in all of the markets in which we operate. The total consideration for these services, including renewal options, is estimated upon the issuance of the initial insurance policy, subject to constraint. TRI Pointe Advantage revenue is included in the Financial Services section of our consolidated statements of operations.

Recently Issued Accounting Standards Not Yet Adopted

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 the adoption of ASU 2017-04 to have a material impact on our financial statements.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), which replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, with early adoption permitted. We are still evaluating the impact ASU 2016-13 will have on our consolidated financial statements.

Adoption of New Accounting Standards

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases* (Codified as “ASC 842”), which requires an entity to recognize a lease right-of-use asset and lease liability on the balance sheet for the rights and obligations created by leases with durations of greater than 12 months. Right-of-use lease assets represent our right to use the underlying asset for the lease term and the lease obligation represents our commitment to make the lease payments arising from the lease. The guidance also requires more disclosures about leases in the notes to financial statements. We adopted ASC 842 on January 1, 2019, using a modified retrospective approach resulting in the recognition of a cumulative effect adjustment to the opening balance sheet of \$57.4 million, which included a lease right-of-use asset offset by a lease liability on our consolidated balance sheet. No prior period adjustment was recorded. Additionally, we have elected the transition package of three practical expedients permitted under ASC 842, which among other things, allows us to retain the current operating classification for all of our existing leases prior to January 1, 2019. For further details on the adoption of ASC 842, see Note 13, *Commitments and Contingencies*.

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, Colorado and North Carolina; 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 and escrow services operations, and our TRI Pointe Advantage property and casualty insurance agency operations. For further details, see Note 1, *Organization, Basis of Presentation and Summary of Significant Accounting Policies*.

Corporate is a non-operating segment that develops and implements company-wide strategic initiatives and provides support to our homebuilding reporting segments by centralizing certain administrative functions, such as marketing, legal, accounting, treasury, insurance, internal audit and risk management, information technology and human resources, to benefit from economies of scale. Our Corporate non-operating segment also includes general and administrative expenses related to operating our corporate headquarters. 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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues				
Maracay	\$ 70,860	\$ 66,730	\$ 166,074	\$ 182,134
Pardee Homes	321,922	224,452	651,484	648,208
Quadrant Homes	49,875	66,174	164,812	193,481
Trendmaker Homes	103,428	78,606	296,212	197,730
TRI Pointe Homes	154,737	264,499	519,280	710,561
Winchester Homes	46,672	74,130	141,920	196,782
Total homebuilding revenues	747,494	774,591	1,939,782	2,128,896
Financial services	901	480	1,959	1,154
Total	<u>\$ 748,395</u>	<u>\$ 775,071</u>	<u>\$ 1,941,741</u>	<u>\$ 2,130,050</u>
Income (loss) before income taxes				
Maracay	\$ 6,179	\$ 6,260	\$ 10,355	\$ 15,665
Pardee Homes	73,790	36,087	87,734	122,195
Quadrant Homes	1,600	9,269	4,154	25,206
Trendmaker Homes	5,578	7,379	10,888	13,977
TRI Pointe Homes	7,245	30,945	29,734	69,651
Winchester Homes	(71)	4,122	1,718	9,908
Corporate	(11,800)	(12,773)	(29,430)	(36,351)
Total homebuilding income before income taxes	82,521	81,289	115,153	220,251
Financial services	2,198	2,341	5,055	5,735
Total	<u>\$ 84,719</u>	<u>\$ 83,630</u>	<u>\$ 120,208</u>	<u>\$ 225,986</u>

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

	September 30, 2019	December 31, 2018
Real estate inventories		
Maracay	\$ 346,337	\$ 293,217
Pardee Homes	1,343,809	1,286,877
Quadrant Homes	293,220	279,486
Trendmaker Homes	274,130	271,061
TRI Pointe Homes	803,339	812,799
Winchester Homes	284,555	272,619
Total	<u>\$ 3,345,390</u>	<u>\$ 3,216,059</u>
Total assets		
Maracay	\$ 379,817	\$ 318,703
Pardee Homes	1,451,879	1,391,503
Quadrant Homes	350,305	313,947
Trendmaker Homes	320,998	325,943
TRI Pointe Homes	995,806	987,610
Winchester Homes	317,583	298,602
Corporate	101,365	228,010
Total homebuilding assets	<u>3,917,753</u>	<u>3,864,318</u>
Financial services	<u>23,718</u>	<u>19,885</u>
Total	<u>\$ 3,941,471</u>	<u>\$ 3,884,203</u>

3. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Numerator:				
Net income	<u>\$ 62,861</u>	<u>\$ 63,969</u>	<u>\$ 89,194</u>	<u>\$ 170,529</u>
Denominator:				
Basic weighted-average shares outstanding	141,088,381	147,725,074	141,729,759	150,377,472
Effect of dilutive shares:				
Stock options and unvested restricted stock units	445,165	592,958	399,027	1,104,984
Diluted weighted-average shares outstanding	<u>141,533,546</u>	<u>148,318,032</u>	<u>142,128,786</u>	<u>151,482,456</u>
Earnings per share				
Basic	<u>\$ 0.45</u>	<u>\$ 0.43</u>	<u>\$ 0.63</u>	<u>\$ 1.13</u>
Diluted	<u>\$ 0.44</u>	<u>\$ 0.43</u>	<u>\$ 0.63</u>	<u>\$ 1.13</u>
Antidilutive stock options and unvested restricted stock units not included in diluted earnings per share	<u>2,459,868</u>	<u>2,008,612</u>	<u>2,916,252</u>	<u>1,280,500</u>

4. Receivables

Receivables consisted of the following (in thousands):

	September 30, 2019	December 31, 2018
Escrow proceeds and other accounts receivable, net	\$ 33,106	\$ 13,995
Warranty insurance receivable (Note 13)	37,401	37,597
Total receivables	<u>\$ 70,507</u>	<u>\$ 51,592</u>

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 \$451,000 and \$667,000 as of September 30, 2019 and December 31, 2018, respectively.

5. Real Estate Inventories

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

	September 30, 2019	December 31, 2018
Real estate inventories owned:		
Homes completed or under construction	\$ 1,217,154	\$ 959,911
Land under development	1,654,172	1,743,537
Land held for future development	129,880	201,874
Model homes	273,173	238,828
Total real estate inventories owned	<u>3,274,379</u>	<u>3,144,150</u>
Real estate inventories not owned:		
Land purchase and land option deposits	71,011	71,909
Total real estate inventories not owned	<u>71,011</u>	<u>71,909</u>
Total real estate inventories	<u>\$ 3,345,390</u>	<u>\$ 3,216,059</u>

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 decrease in land held under development as of September 30, 2019 compared to December 31, 2018 is attributable to two communities in which we commenced development activity during the three months ended September 30, 2019.

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest incurred	\$ 22,405	\$ 23,942	\$ 67,740	\$ 67,089
Interest capitalized	(22,405)	(23,942)	(67,740)	(67,089)
Interest expensed	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Capitalized interest in beginning inventory	\$ 197,295	\$ 185,589	\$ 184,400	\$ 176,348
Interest capitalized as a cost of inventory	22,405	23,942	67,740	67,089
Interest previously capitalized as a cost of inventory, included in cost of sales	(19,234)	(20,293)	(51,674)	(54,199)
Capitalized interest in ending inventory	<u>\$ 200,466</u>	<u>\$ 189,238</u>	<u>\$ 200,466</u>	<u>\$ 189,238</u>

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

Real Estate Inventory Impairments and Land Option Abandonments

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Real estate inventory impairments	\$ —	\$ —	\$ —	\$ —
Land and lot option abandonments and pre-acquisition charges	1,029	643	6,519	1,500
Total	\$ 1,029	\$ 643	\$ 6,519	\$ 1,500

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. No real estate inventory impairments were recorded for the three or nine-month periods ended September 30, 2019 or 2018.

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

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

6. Investments in Unconsolidated Entities

As of September 30, 2019, 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 7% to 65%, depending on the investment, with no controlling interest held in any of these investments.

Unconsolidated Financial Information

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

Assets and liabilities of unconsolidated entities (in thousands):

	September 30, 2019	December 31, 2018
Assets		
Cash	\$ 9,740	\$ 13,337
Receivables	5,250	4,674
Real estate inventories	102,878	99,864
Other assets	672	811
Total assets	\$ 118,540	\$ 118,686
Liabilities and equity		
Accounts payable and other liabilities	\$ 7,743	\$ 11,631
Company's equity	4,207	5,410
Outside interests' equity	106,590	101,645
Total liabilities and equity	\$ 118,540	\$ 118,686

Results of operations from unconsolidated entities (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net sales	\$ 8,617	\$ 6,185	\$ 19,081	\$ 19,900
Other operating expense	(5,466)	(2,951)	(11,746)	(13,510)
Other income, net	173	1	174	85
Net income	\$ 3,324	\$ 3,235	\$ 7,509	\$ 6,475
Company's equity in income of unconsolidated entities	\$ 2,132	\$ 2,001	\$ 4,828	\$ 4,588

7. Variable Interest Entities

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

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

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

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

	September 30, 2019			December 31, 2018		
	Deposits	Remaining Purchase Price	Consolidated Inventory Held by VIEs	Deposits	Remaining Purchase Price	Consolidated Inventory Held by VIEs
Consolidated VIEs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Unconsolidated VIEs	45,243	403,246	N/A	41,198	433,720	N/A
Other land option agreements	25,768	327,033	N/A	30,711	307,498	N/A
Total	<u>\$ 71,011</u>	<u>\$ 730,279</u>	<u>\$ —</u>	<u>\$ 71,909</u>	<u>\$ 741,218</u>	<u>\$ —</u>

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 \$7.2 million and \$7.5 million as of September 30, 2019 and December 31, 2018, respectively. These pre-acquisition costs are included in real estate inventories as land under development on our consolidated balance sheets.

8. Goodwill and Other Intangible Assets

As of September 30, 2019 and December 31, 2018, \$139.3 million of goodwill is included in goodwill and other intangible assets, net on each of the consolidated balance sheets. The Company's goodwill balance is included in the TRI Pointe Homes reporting segment in Note 2, *Segment Information*.

We have two intangible assets as of September 30, 2019, 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 in 2014, which has an indefinite useful life.

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

	September 30, 2019			December 31, 2018		
	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	(7,257)	20,722	27,979	(6,856)	21,123
Total	<u>\$ 167,283</u>	<u>\$ (7,257)</u>	<u>\$ 160,026</u>	<u>\$ 167,283</u>	<u>\$ (6,856)</u>	<u>\$ 160,427</u>

The remaining useful life of our amortizing intangible asset related to the Maracay trade name was 6.4 and 7.2 years as of September 30, 2019 and December 31, 2018, respectively. The net carrying amount related to this intangible asset was \$3.4 million and \$3.8 million as of September 30, 2019 and December 31, 2018, respectively. Amortization expense related to this intangible asset was \$133,000 for each of the three-month periods ended September 30, 2019 and 2018, respectively, and \$401,000 for each of the nine-month periods ended September 30, 2019 and 2018, 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 2019, the next four years and thereafter is (in thousands):

Remainder of 2019	\$	133
2020		534
2021		534
2022		534
2023		534
Thereafter		1,153
Total	\$	<u>3,422</u>

9. Other Assets

Other assets consisted of the following (in thousands):

	September 30, 2019	December 31, 2018
Prepaid expenses	\$ 26,943	\$ 31,983
Refundable fees and other deposits	24,556	12,376
Development rights, held for future use or sale	2,250	845
Deferred loan costs—loans payable	4,663	2,424
Operating properties and equipment, net	59,367	54,198
Lease right-of-use assets	52,462	—
Other	3,563	3,425
Total	<u>\$ 173,804</u>	<u>\$ 105,251</u>

Lease right-of-use assets was impacted by our one-time cumulative adjustment resulting from the adoption of ASC 842. As a result of our cumulative adjustment, the December 31, 2018 balance increased by \$57.4 million on January 1, 2019. For further details, see Note 1, *Organization, Basis of Presentation and Summary of Significant Accounting Policies* and Note 13, *Commitments and Contingencies*.

10. Accrued Expenses and Other Liabilities

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

	September 30, 2019	December 31, 2018
Accrued payroll and related costs	\$ 28,660	\$ 44,010
Warranty reserves (Note 13)	72,893	71,836
Estimated cost for completion of real estate inventories	86,232	114,928
Customer deposits	23,587	17,464
Income tax liability to Weyerhaeuser	577	6,577
Accrued income taxes payable	4,315	8,335
Liability for uncertain tax positions (Note 15)	972	972
Accrued interest	19,135	12,572
Other tax liability	8,003	21,892
Lease liabilities	57,513	3,196
Other	13,549	33,367
Total	<u>\$ 315,436</u>	<u>\$ 335,149</u>

Lease liabilities was impacted by our one-time cumulative adjustment resulting from the adoption of ASC 842. As a result of our cumulative adjustment, the December 31, 2018 balance increased by \$57.4 million on January 1, 2019. For further details, see Note 1, *Organization, Basis of Presentation and Summary of Significant Accounting Policies* and Note 13, *Commitments and Contingencies*.

11. Senior Notes and Loans Payable

Senior Notes

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

	September 30, 2019	December 31, 2018
4.375% Senior Notes due June 15, 2019	\$ —	\$ 381,895
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	(16,942)	(21,091)
Total	<u>\$ 1,033,058</u>	<u>\$ 1,410,804</u>

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.

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 wholly owned subsidiary TRI Pointe Homes, Inc. ("TRI Pointe Homes") are co-issuers of the 5.875% Senior Notes due 2024 (the "2024 Notes") and the 4.375% Senior Notes that matured on June 15, 2019 (the "2019 Notes"). The 2024 Notes were issued at 98.15% of their aggregate principal amount. The net proceeds from the offering of the 2019 Notes and the 2024 Notes were \$861.3 million, after debt issuance costs and discounts. The 2024 Notes mature on June 15, 2024, with interest payable semiannually in arrears on June 15 and December 15. In June 2019, we repaid the remaining \$381.9 million of principal balance of the 2019 Notes upon maturity. During the year ended December 31, 2018, we repurchased and cancelled an aggregate principal amount of \$68.1 million of the 2019 Notes.

As of September 30, 2019, there was \$11.7 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 \$16.7 million and \$11.5 million as of September 30, 2019 and December 31, 2018, respectively.

Loans Payable

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

	September 30, 2019	December 31, 2018
Term loan facility	\$ 250,000	\$ —
Unsecured revolving credit facility	150,000	—
Total	<u>\$ 400,000</u>	<u>\$ —</u>

On March 29, 2019, the Company entered into a Second Amended and Restated Credit Agreement (the "Credit Agreement"), which amended and restated the Company's Amended and Restated Credit Agreement, dated as of July 7, 2015. The Credit Facility (as defined below), which matures on March 29, 2023, consists of a \$600 million revolving credit facility (the "Revolving Facility") and a \$250 million term loan facility (the "Term Facility" and together with the Revolving Facility,

the “Credit Facility”). The Term Facility includes a 90-day delayed draw provision that allowed the Company to draw the full \$250 million from the Term Facility in June 2019 in connection with the maturity of the 2019 Notes. The Company may increase the Credit Facility to not more than \$1 billion in the aggregate, at its request, upon satisfaction of specified conditions. The Revolving Facility contains a sublimit of \$75 million for letters of credit. The Company may borrow under the Revolving Facility in the ordinary course of business to repay senior notes and fund its operations, including its land acquisition, land development and homebuilding activities. Borrowings under the Revolving Facility will be governed by, among other things, a borrowing base. Interest rates on borrowings under the Revolving Facility will be based on either a daily Eurocurrency base rate or a Eurocurrency rate, in either case, plus a spread ranging from 1.25% to 2.00%, depending on the Company’s leverage ratio. Interest rates on borrowings under the Term Facility will be based on either a daily Eurocurrency base rate or a Eurocurrency rate, in either case, plus a spread ranging from 1.10% to 1.85%, depending on the Company’s leverage ratio.

As of September 30, 2019, we had \$150 million outstanding debt under the Revolving Facility with an interest rate of 3.85% per annum and there was \$418.6 million of availability after considering the borrowing base provisions and outstanding letters of credit. As of September 30, 2019, we had \$250 million outstanding debt under the Term Facility with an interest rate of 3.45%. As of September 30, 2019, there was \$4.7 million of capitalized debt financing costs, included in other assets on our consolidated balance sheet, related to the Credit Facility that will amortize over the remaining term of the Credit Facility. Accrued interest, including loan commitment fees, related to the Credit Facility was \$754,000 and \$402,000 as of September 30, 2019 and December 31, 2018, respectively.

At September 30, 2019 and December 31, 2018, we had outstanding letters of credit of \$31.4 million and \$31.8 million, respectively. These letters of credit were issued to secure various financial obligations. We believe it is not probable that any outstanding letters of credit will be drawn upon.

Interest Incurred

During the three months ended September 30, 2019 and 2018, the Company incurred interest of \$22.4 million and \$23.9 million, respectively, related to all debt during the period. Included in interest incurred was amortization of deferred financing and Senior Note discount costs of \$1.2 million and \$2.0 million for the three months ended September 30, 2019 and 2018, respectively. During the nine months ended September 30, 2019 and 2018, the Company incurred interest of \$67.7 million and \$67.1 million, respectively, related to all debt during the period. Included in interest incurred was amortization of deferred financing and Senior Note discount costs of \$5.0 million and \$6.1 million for the nine months ended September 30, 2019 and 2018, respectively. Accrued interest related to all outstanding debt at September 30, 2019 and December 31, 2018 was \$19.1 million and \$12.6 million, respectively.

Covenant Requirements

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

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

The Company was in compliance with all applicable financial covenants as of September 30, 2019 and December 31, 2018.

12. Fair Value Disclosures

Fair Value Measurements

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

- Level 1—Quoted prices for identical instruments in active markets
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are inactive; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets at measurement date

- Level 3—Valuations derived from techniques where one or more significant inputs or significant value drivers are unobservable in active markets at measurement date

Fair Value of Financial Instruments

A summary of assets and liabilities at September 30, 2019 and December 31, 2018, related to our financial instruments, measured at fair value on a recurring basis, is set forth below (in thousands):

	Hierarchy	September 30, 2019		December 31, 2018	
		Book Value	Fair Value	Book Value	Fair Value
Senior Notes ⁽¹⁾	Level 2	\$ 1,044,775	\$ 1,084,875	\$ 1,425,397	\$ 1,308,826
Unsecured revolving credit facility ⁽²⁾	Level 2	\$ 150,000	\$ 150,000	\$ —	\$ —
Term loan facility ⁽²⁾	Level 2	\$ 250,000	\$ 250,000	\$ —	\$ —

⁽¹⁾ The book value of the Senior Notes is net of discounts, excluding deferred loan costs of \$11.7 million and \$14.6 million as of September 30, 2019 and December 31, 2018, respectively. The estimated fair value of the Senior Notes at September 30, 2019 and December 31, 2018 is based on quoted market prices.

⁽²⁾ The estimated fair value of the Credit Facility and Term Loan Facility as of September 30, 2019 approximated book value due to the variable interest rate terms of these loans.

At September 30, 2019 and December 31, 2018, the carrying value of cash and cash equivalents and receivables approximated fair value due to their short-term nature and variable interest rate terms.

Fair Value of Nonfinancial Assets

Nonfinancial assets include items such as real estate inventories and long-lived assets that are measured at fair value on a nonrecurring basis when events and circumstances indicating the carrying value is not recoverable. No carrying values were adjusted to fair value for the nine months ended September 30, 2019 or the year ended December 31, 2018.

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 reserve as of September 30, 2019. As of December 31, 2018, we had a \$17.5 million legal reserve related to a settlement in connection with a previously disclosed lawsuit involving a land sale that occurred in 1987, included in accrued expenses and other liabilities on our consolidated balance sheet. This settlement was paid on February 4, 2019.

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 \$37.4 million and \$37.6 million as of September 30, 2019 and December 31, 2018, respectively. Warranty insurance receivables are recorded in receivables on the accompanying consolidated balance sheets.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Warranty reserves, beginning of period	\$ 71,471	\$ 72,342	\$ 71,836	\$ 69,373
Warranty reserves accrued	6,826	6,257	17,481	17,669
Warranty expenditures	(5,404)	(4,604)	(16,424)	(13,047)
Warranty reserves, end of period	<u>\$ 72,893</u>	<u>\$ 73,995</u>	<u>\$ 72,893</u>	<u>\$ 73,995</u>

Performance Bonds

We obtain surety bonds in the normal course of business to ensure completion of certain infrastructure improvements of our projects. The beneficiaries of the bonds are various municipalities. As of September 30, 2019 and December 31, 2018, the Company had outstanding surety bonds totaling \$592.1 million and \$685.7 million, respectively. As of September 30, 2019 and December 31, 2018, our estimated cost to complete obligations related to these surety bonds was \$398.2 million and \$423.4 million, respectively.

Lease Obligations

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

Operating Leases

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

Ground Leases

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

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

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Lease Cost		
Operating lease cost (included in SG&A expense)	\$ 2,755	\$ 6,965
Ground lease cost (included in other operations expense)	609	1,826
Sublease income, ground leases (included in other operations revenue)	(618)	(1,853)
Net lease cost	<u>\$ 2,746</u>	<u>\$ 6,938</u>

Other information

Cash paid for amounts included in the measurement of lease liabilities:

Operating lease cash flows (included in operating cash flows)	\$ 1,556	\$ 4,806
Ground lease cash flows (included in operating cash flows)	\$ 609	\$ 1,826
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 311	\$ 2,364

	September 30, 2019
Weighted-average discount rate:	
Operating leases	6.0%
Ground leases	10.2%
Weighted-average remaining lease term (in years):	
Operating leases	6.1
Ground leases	48.5

The future minimum lease payments under our operating leases are as follows (in thousands):

	Property, Equipment and Other Leases	Ground Leases ⁽¹⁾
Remaining in 2019	\$ 2,278	\$ 746
2020	8,594	2,984
2021	7,182	2,984
2022	5,591	2,984
2023	4,484	2,984
Thereafter	9,155	84,266
Total lease payments	<u>\$ 37,284</u>	<u>\$ 96,948</u>
Less: Interest	6,708	70,011
Present value of operating lease liabilities	<u>\$ 30,576</u>	<u>\$ 26,937</u>

⁽¹⁾ Ground leases are fully subleased through 2041, representing \$65.9 million of the \$96.9 million future ground lease obligations.

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 ("RSUs") and performance awards. The 2013 Incentive Plan will automatically expire on the tenth anniversary of its effective date. Our board of directors may terminate or amend the 2013 Incentive Plan at any time, subject to any requirement of stockholder approval required by applicable law, rule or regulation.

As amended, the number of shares of our common stock that may be issued under the 2013 Incentive Plan is 11,727,833 shares. To the extent that shares of our common stock subject to an outstanding option, stock appreciation right, stock award or performance award granted under the 2013 Incentive Plan are not issued or delivered by reason of the expiration, termination, cancellation or forfeiture of such award or the settlement of such award in cash, then such shares of our common stock generally shall again be available under the 2013 Incentive Plan. As of September 30, 2019, there were 5,835,420 shares available for future grant under the 2013 Incentive Plan.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Total stock-based compensation	\$ 3,828	\$ 3,765	\$ 10,614	\$ 10,955

Stock-based compensation is charged to general and administrative expense on the accompanying consolidated statements of operations. As of September 30, 2019, total unrecognized stock-based compensation related to all stock-based awards was \$21.8 million and the weighted average term over which the expense was expected to be recognized was 1.9 years.

Summary of Stock Option Activity

The following table presents a summary of stock option awards for the nine months ended September 30, 2019:

	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2018	953,905	\$ 14.58	4.2	\$ 296
Granted	—	—	—	—
Exercised	(46,940)	\$ 6.66	—	—
Forfeited	(3,625)	\$ 14.29	—	—
Options outstanding at September 30, 2019	903,340	\$ 15.00	3.6	\$ 786
Options exercisable at September 30, 2019	903,340	\$ 15.00	3.6	\$ 786

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

Summary of Restricted Stock Unit Activity

The following table presents a summary of RSUs for the nine months ended September 30, 2019:

	Restricted Stock Units	Weighted Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value (in thousands)
Nonvested RSUs at December 31, 2018	3,341,848	\$ 11.05	\$ 36,526
Granted	1,656,333	\$ 12.15	—
Vested	(844,534)	\$ 12.95	—
Forfeited	(756,672)	\$ 5.32	—
Nonvested RSUs at September 30, 2019	3,396,975	\$ 12.39	\$ 51,091

RSUs that vested, as reflected in the table above, during the nine months ended September 30, 2019 include previously granted time-based RSUs. RSUs that were forfeited, as reflected in the table above, during the nine months ended September 30, 2019 include performance-based RSUs and time-based RSUs that were forfeited for no consideration.

On May 6, 2019, the Company granted an aggregate of 61,488 time-based RSUs to the non-employee members of its board of directors and 1,098 time-based RSUs to certain employees. The RSUs granted to non-employee directors vest in their entirety on the day immediately prior to the Company's 2020 Annual Meeting of Stockholders and the RSUs granted to employee's 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 6, 2019 was measured using a price of \$13.66 per share which was the closing stock price on the date of grant. Each award will be expensed on a straight-line basis over the vesting period.

On March 11, 2019 and February 28, 2019, the Company granted an aggregate of 3,025 and 990,723, respectively, of time-based 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 March 11, 2019 and February 28, 2019 was measured using a price of \$13.22 and \$12.60 per share, respectively, which were the closing stock prices on the dates of grant. Each award will be expensed on a straight-line basis over the vesting period.

On February 28, 2019, the Company granted 247,619, 238,095 and 114,285 performance-based RSUs to the Company's Chief Executive Officer, President, and Chief Financial Officer, respectively. These performance-based RSUs are allocated to two separate performance metrics, as follows: (i) thirty percent to total stockholder return ("TSR"), with vesting based on the Company's TSR relative to its peer-group homebuilders; and (ii) seventy percent to 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, 2019 to December 31, 2021. The fair value of the performance-based RSUs related to the TSR metric was determined to be \$8.16 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 \$12.60 per share, which was the closing stock price on the date of grant. Each award will be expensed over the requisite service period.

On April 30, 2018, the Company granted an aggregate of 40,910 RSUs to the non-employee members of its board of directors. On July 23, 2018, the Company granted 6,677 RSUs to a non-employee member of its board of directors in connection with such individual's appointment to the board of directors. These RSUs vested in their entirety on April 29, 2019. The fair value of each RSU granted on April 30, 2018 and July 23, 2018 was measured using a price of \$17.11 and \$16.37 per share, respectively, which were the closing stock prices on the dates of grant. Each award was 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-based 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 were the closing stock prices on the date of grants. 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.

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 \$57.3 million and \$67.8 million as of September 30, 2019 and December 31, 2018. We had a valuation allowance related to those net deferred tax assets of \$3.4 million as of both September 30, 2019 and December 31, 2018. The Company will continue to evaluate both positive and negative evidence in determining the need for a valuation allowance against its deferred tax assets. Changes in positive and negative evidence, including differences between the Company's future operating results and the estimates utilized in the determination of the valuation allowance, could result in changes in the Company's estimate of the valuation allowance against its deferred tax assets. The accounting for deferred taxes is based upon estimates of future results. Differences between the anticipated and actual outcomes of these future results could have a material impact on the Company's consolidated results of operations or financial position. Also, changes in existing federal and state tax laws and tax rates could affect future tax results and the valuation allowance against the Company's deferred tax assets.

TRI Pointe has certain liabilities to Weyerhaeuser Company ("Weyerhaeuser") related to a tax sharing agreement. As of September 30, 2019 and December 31, 2018, we had an income tax liability to Weyerhaeuser of \$577,000 and \$6.6 million, respectively. The income tax liability to Weyerhaeuser is recorded in accrued expenses and other liabilities on the accompanying consolidated balance sheets. During the three months ended March 31, 2019, we amended our existing tax sharing agreement with Weyerhaeuser, pursuant to which the parties agreed, among other things, that we had no further obligation to remit payment to Weyerhaeuser in connection with any potential utilization of certain deductions or losses associated with certain Weyerhaeuser entities with respect to federal and state taxes. As a result of the amendment, during the three months ended March 31, 2019, we decreased our income tax liability to Weyerhaeuser and recorded other income of \$6.0 million, which is included in other income, net in the accompanying consolidated statements of operations.

Our provision for income taxes totaled \$21.9 million and \$19.7 million for the three months ended September 30, 2019 and 2018, respectively. Our provision for income taxes totaled \$31.0 million and \$55.5 million for the nine months ended September 30, 2019 and 2018, respectively. The Company classifies any interest and penalties related to income taxes assessed by jurisdiction as part of income tax expense. The Company had \$1.0 million of uncertain tax positions recorded as of both September 30, 2019 and December 31, 2018. The Company has not been assessed interest or penalties by any major tax jurisdictions related to prior years.

16. Related Party Transactions

We had no related party transactions for the nine months ended September 30, 2019 and 2018.

17. Supplemental Disclosure to Consolidated Statements of Cash Flows

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

	Nine Months Ended September 30,	
	2019	2018
Supplemental disclosure of cash flow information:		
Interest paid (capitalized), net	\$ (11,599)	\$ (12,807)
Income taxes paid (refunded), net	\$ 23,731	\$ 81,417
Supplemental disclosures of noncash activities:		
Amortization of senior note discount capitalized to real estate inventory	\$ 1,409	\$ 1,738
Amortization of deferred loan costs capitalized to real estate inventory	\$ 4,112	\$ 4,841
Increase in other assets related to adoption of ASC 606	\$ —	\$ 39,534

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. The 2019 Notes matured on June 15, 2019, at which time the Company repaid the remaining principal balance of \$381.9 million.

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

Presented below are the condensed consolidating balance sheets at September 30, 2019 and December 31, 2018, condensed consolidating statements of operations for the three and nine months ended September 30, 2019 and 2018 and

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

Condensed Consolidating Balance Sheet (in thousands):

	September 30, 2019			
	Issuer	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated TRI Pointe Group, Inc.
Assets				
Cash and cash equivalents	\$ 34,683	\$ 95,579	\$ —	\$ 130,262
Receivables	25,703	44,804	—	70,507
Intercompany receivables	843,814	—	(843,814)	—
Real estate inventories	803,339	2,542,051	—	3,345,390
Investments in unconsolidated entities	—	4,207	—	4,207
Goodwill and other intangible assets, net	156,604	3,422	—	160,026
Investments in subsidiaries	1,760,138	—	(1,760,138)	—
Deferred tax assets, net	14,822	42,453	—	57,275
Other assets	18,925	154,879	—	173,804
Total assets	<u>\$ 3,658,028</u>	<u>\$ 2,887,395</u>	<u>\$ (2,603,952)</u>	<u>\$ 3,941,471</u>
Liabilities				
Accounts payable	\$ 20,098	\$ 61,181	\$ —	\$ 81,279
Intercompany payables	—	843,814	(843,814)	—
Accrued expenses and other liabilities	93,187	222,249	—	315,436
Loans payable	400,000	—	—	400,000
Senior notes	1,033,058	—	—	1,033,058
Total liabilities	<u>1,546,343</u>	<u>1,127,244</u>	<u>(843,814)</u>	<u>1,829,773</u>
Equity				
Total stockholders’ equity	2,111,685	1,760,138	(1,760,138)	2,111,685
Noncontrolling interests	—	13	—	13
Total equity	<u>2,111,685</u>	<u>1,760,151</u>	<u>(1,760,138)</u>	<u>2,111,698</u>
Total liabilities and equity	<u>\$ 3,658,028</u>	<u>\$ 2,887,395</u>	<u>\$ (2,603,952)</u>	<u>\$ 3,941,471</u>

Condensed Consolidating Balance Sheet (in thousands):

	December 31, 2018			
	Issuer	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated TRI Pointe Group, Inc.
Assets				
Cash and cash equivalents	\$ 148,129	\$ 129,567	\$ —	\$ 277,696
Receivables	16,589	35,003	—	51,592
Intercompany receivables	758,501	—	(758,501)	—
Real estate inventories	812,799	2,403,260	—	3,216,059
Investments in unconsolidated entities	—	5,410	—	5,410
Goodwill and other intangible assets, net	156,604	3,823	—	160,427
Investments in subsidiaries	1,672,635	—	(1,672,635)	—
Deferred tax assets, net	14,822	52,946	—	67,768
Other assets	12,984	92,267	—	105,251
Total assets	<u>\$ 3,593,063</u>	<u>\$ 2,722,276</u>	<u>\$ (2,431,136)</u>	<u>\$ 3,884,203</u>
Liabilities				
Accounts payable	\$ 13,433	\$ 67,880	\$ —	\$ 81,313
Intercompany payables	—	758,501	(758,501)	—
Accrued expenses and other liabilities	111,902	223,247	—	335,149
Senior notes	1,410,804	—	—	1,410,804
Total liabilities	<u>1,536,139</u>	<u>1,049,628</u>	<u>(758,501)</u>	<u>1,827,266</u>
Equity				
Total stockholders' equity	2,056,924	1,672,635	(1,672,635)	2,056,924
Noncontrolling interests	—	13	—	13
Total equity	<u>2,056,924</u>	<u>1,672,648</u>	<u>(1,672,635)</u>	<u>2,056,937</u>
Total liabilities and equity	<u>\$ 3,593,063</u>	<u>\$ 2,722,276</u>	<u>\$ (2,431,136)</u>	<u>\$ 3,884,203</u>

Condensed Consolidating Statement of Operations (in thousands):

	Three Months Ended September 30, 2019			
	Issuer	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated TRI Pointe Group, Inc.
Homebuilding:				
Home sales revenue	\$ 154,737	\$ 591,532	\$ —	\$ 746,269
Land and lot sales revenue	—	607	—	607
Other operations revenue	—	618	—	618
Total revenues	154,737	592,757	—	747,494
Cost of home sales	130,248	447,379	—	577,627
Cost of land and lot sales	—	495	—	495
Other operations expense	—	609	—	609
Sales and marketing	9,716	38,118	—	47,834
General and administrative	19,353	19,398	—	38,751
Homebuilding (loss) income from operations	(4,580)	86,758	—	82,178
Equity in income of unconsolidated entities	—	18	—	18
Other income, net	21	304	—	325
Homebuilding (loss) income before income taxes	(4,559)	87,080	—	82,521
Financial Services:				
Revenues	—	901	—	901
Expenses	—	817	—	817
Equity in income of unconsolidated entities	—	2,114	—	2,114
Financial services income before income taxes	—	2,198	—	2,198
(Loss) income before income taxes	(4,559)	89,278	—	84,719
Equity of net income of subsidiaries	67,420	—	(67,420)	—
Provision for income taxes	—	(21,858)	—	(21,858)
Net income	\$ 62,861	\$ 67,420	\$ (67,420)	\$ 62,861

Condensed Consolidating Statement of Operations (in thousands):

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

Condensed Consolidating Statement of Operations (in thousands):

	Nine Months Ended September 30, 2019			
	Issuer	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated TRI Pointe Group, Inc.
Homebuilding:				
Home sales revenue	\$ 519,280	\$ 1,411,830	\$ —	\$ 1,931,110
Land and lot sales revenue	—	6,819	—	6,819
Other operations revenue	—	1,853	—	1,853
Total revenues	519,280	1,420,502	—	1,939,782
Cost of home sales	438,679	1,135,168	—	1,573,847
Cost of land and lot sales	—	7,552	—	7,552
Other operations expense	—	1,826	—	1,826
Sales and marketing	28,976	104,912	—	133,888
General and administrative	57,223	56,979	—	114,202
Homebuilding (loss) income from operations	(5,598)	114,065	—	108,467
Equity in loss of unconsolidated entities	—	(33)	—	(33)
Other income, net	6,169	550	—	6,719
Homebuilding income before income taxes	571	114,582	—	115,153
Financial Services:				
Revenues	—	1,959	—	1,959
Expenses	—	1,765	—	1,765
Equity in income of unconsolidated entities	—	4,861	—	4,861
Financial services income before income taxes	—	5,055	—	5,055
Income before income taxes	571	119,637	—	120,208
Equity of net income of subsidiaries	88,628	—	(88,628)	—
Provision for income taxes	(5)	(31,009)	—	(31,014)
Net income	<u>\$ 89,194</u>	<u>\$ 88,628</u>	<u>\$ (88,628)</u>	<u>\$ 89,194</u>

Condensed Consolidating Statement of Operations (in thousands):

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

Condensed Consolidating Statement of Cash Flows (in thousands):

	Nine Months Ended September 30, 2019			
	Issuer	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated TRI Pointe Group, Inc.
Cash flows from operating activities:				
Net cash provided by (used in) operating activities	\$ 5,678	\$ (99,987)	\$ —	\$ (94,309)
Cash flows from investing activities:				
Purchases of property and equipment	(7,088)	(15,304)	—	(22,392)
Proceeds from sale of property and equipment	—	46	—	46
Investments in unconsolidated entities	—	(712)	—	(712)
Intercompany	(81,969)	—	81,969	—
Net cash used in investing activities	(89,057)	(15,970)	81,969	(23,058)
Cash flows from financing activities:				
Borrowings from debt	400,000	—	—	400,000
Repayment of debt	(381,895)	—	—	(381,895)
Debt issuance costs	(3,125)	—	—	(3,125)
Proceeds from issuance of common stock under share-based awards	300	—	—	300
Minimum tax withholding paid on behalf of employees for restricted stock units	(3,612)	—	—	(3,612)
Share repurchases	(41,735)	—	—	(41,735)
Intercompany	—	81,969	(81,969)	—
Net cash (used in) provided by financing activities	(30,067)	81,969	(81,969)	(30,067)
Net decrease in cash and cash equivalents	(113,446)	(33,988)	—	(147,434)
Cash and cash equivalents—beginning of period	148,129	129,567	—	277,696
Cash and cash equivalents—end of period	\$ 34,683	\$ 95,579	\$ —	\$ 130,262

Condensed Consolidating Statement of Cash Flows (in thousands):

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

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

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

Forward-Looking Statements

Forward-looking statements that are included in this Quarterly Report on Form 10-Q are generally accompanied by words such as "anticipate," "believe," "could," "estimate," "expect," "future," "goal," "intend," "likely," "may," "might," "plan," "potential," "predict," "project," "should," "target," "will," "would," or other words that convey the uncertainty of future events or outcomes. These forward-looking statements may include, but are not limited to, statements regarding our strategy, projections and estimates concerning the timing and success of specific projects and our future production, land and lot sales, the outcome of legal proceedings, the anticipated impact of natural disasters 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;
- the availability of desirable and reasonably priced land and our ability to control, purchase, hold and develop such parcels;
- access to adequate capital on acceptable terms;
- geographic concentration of our operations, particularly within California;
- levels of competition;
- the successful execution of our internal performance plans, including restructuring and cost reduction initiatives;
- raw material and labor prices and availability;
- oil and other energy prices;
- the effect of U.S. trade policies, including the imposition of tariffs and duties on homebuilding products and retaliatory measures taken by other countries;
- 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, 2018 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, 2018 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 remain encouraged by current economic conditions. Mortgage interest rates have declined in 2019 compared to rising rates in the back half of 2018, which has provided support to a generally healthy homebuying market as evidenced by the 25% increase in our net new home orders for the three months ended September 30, 2019 compared to the prior-year period. Lower mortgage interest rates are accompanied by low unemployment, positive wage growth and increasing household formations. In addition, the backdrop of housing remains favorable as supply remains low compared to historical levels. While the U.S. economy has been resilient against international trade conflicts and the predictions of a global economic slowdown, we remain cautious as we guide our Company through the current phase of the economic cycle. While the global economic front remains uncertain and deteriorating global conditions could negatively impact the U.S. economy, we remain confident heading into the fourth quarter of 2019 and looking outward into 2020. Based on the latest economic data and commentary by the Federal Reserve, we expect fiscal and monetary policy to remain favorable to our industry throughout the remainder of 2019.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Homebuilding:				
Home sales revenue	\$ 746,269	\$ 771,768	\$ 1,931,110	\$ 2,123,135
Land and lot sales revenue	607	2,225	6,819	3,966
Other operations revenue	618	598	1,853	1,795
Total revenues	747,494	774,591	1,939,782	2,128,896
Cost of home sales	577,627	607,053	1,573,847	1,661,651
Cost of land and lot sales	495	2,234	7,552	4,163
Other operations expense	609	590	1,826	1,781
Sales and marketing	47,834	44,854	133,888	128,881
General and administrative	38,751	38,109	114,202	111,406
Homebuilding income from operations	82,178	81,751	108,467	221,014
Equity in income (loss) of unconsolidated entities	18	15	(33)	(384)
Other income (expense), net	325	(477)	6,719	(379)
Homebuilding income before income taxes	82,521	81,289	115,153	220,251
Financial Services:				
Revenues	901	480	1,959	1,154
Expenses	817	125	1,765	391
Equity in income of unconsolidated entities	2,114	1,986	4,861	4,972
Financial services income before income taxes	2,198	2,341	5,055	5,735
Income before income taxes	84,719	83,630	120,208	225,986
Provision for income taxes	(21,858)	(19,661)	(31,014)	(55,457)
Net income	\$ 62,861	\$ 63,969	\$ 89,194	\$ 170,529
Earnings per share				
Basic	\$ 0.45	\$ 0.43	\$ 0.63	\$ 1.13
Diluted	\$ 0.44	\$ 0.43	\$ 0.63	\$ 1.13

Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018

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

	Three Months Ended September 30, 2019			Three Months Ended September 30, 2018			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	157	15.5	3.4	97	11.0	2.9	62%	41 %	15%
Pardee Homes	424	43.0	3.3	357	36.8	3.2	19%	17 %	2%
Quadrant Homes	68	6.8	3.3	64	7.0	3.0	6%	(3)%	9%
Trendmaker Homes	192	37.0	1.7	139	27.5	1.7	38%	35 %	3%
TRI Pointe Homes	293	29.7	3.3	266	30.3	2.9	10%	(2)%	12%
Winchester Homes	157	15.5	3.4	112	14.7	2.5	40%	5 %	33%
Total	1,291	147.5	2.9	1,035	127.3	2.7	25%	16 %	8%

Net new home orders for the three months ended September 30, 2019 increased by 256 orders, or 25%, to 1,291, compared to 1,035 during the prior-year period. The increase in net new home orders was due to a 16% increase in average selling communities and an 8% increase in monthly absorption rates.

Maracay reported a 62% increase in net new home orders driven by a 41% increase in average selling communities and a 15% increase in monthly absorption rates. The increase in Maracay's monthly absorption rate to 3.4 for the three months ended September 30, 2019 was driven by strong demand for Maracay's new community openings during the current-year period as well as continued strong market fundamentals in Arizona. Pardee Homes reported a 19% increase in net new home orders largely driven by a 17% increase in average selling communities. The increase in average selling communities was a result of increased community count in our Los Angeles, Inland Empire and San Diego markets. Net new home orders increased 6% at Quadrant Homes due primarily to a 9% increase in monthly absorption rate during the current-year period as compared to the prior-year period. The increase in monthly absorption rate was due to a more stable demand environment compared to the prior-year period. Trendmaker Homes' net new home orders increased 38% due to a 35% increase in average selling communities and a 3% increase in monthly absorption rate. The increase in net new home orders and average selling communities was largely the result of the acquisition of a Dallas–Fort Worth-based homebuilder in the fourth quarter of 2018. During the three months ended September 30, 2019, Trendmaker Homes reported 54 net new home orders from 12.5 average selling communities in Dallas–Fort Worth. TRI Pointe Homes' net new home orders increased 10% due to a 12% increase in the monthly absorption rate. The increase in TRI Pointe Homes' monthly absorption rate was primarily driven by stronger market conditions in our California markets compared to the prior-year period. Winchester Homes reported a 40% increase in net new home orders as a result of a 33% increase in monthly absorption rate and a 5% increase in average selling communities. The increase in Winchester Homes' monthly absorption rate was due to strong order demand for certain new community openings during the quarter and more favorable overall market conditions compared to the prior-year period.

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

	As of September 30, 2019			As of September 30, 2018			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	404	\$ 218,424	\$ 541	216	\$ 122,617	\$ 568	87 %	78 %	(5)%
Pardee Homes	753	542,370	720	698	451,398	647	8 %	20 %	11 %
Quadrant Homes	89	77,426	870	129	127,136	986	(31)%	(39)%	(12)%
Trendmaker Homes	367	184,563	503	239	143,000	598	54 %	29 %	(16)%
TRI Pointe Homes	451	306,337	679	627	460,700	735	(28)%	(34)%	(8)%
Winchester Homes	248	162,332	655	192	126,374	658	29 %	28 %	— %
Total	2,312	\$ 1,491,452	\$ 645	2,101	\$ 1,431,225	\$ 681	10 %	4 %	(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 17% and 19% during the three-month periods ended September 30, 2019 and 2018, respectively. The dollar value of backlog was \$1.5 billion as of September 30, 2019, an increase of \$60.2 million, or 4%, compared to \$1.4 billion as of September 30, 2018. This increase was due to an increase in backlog units of 211, or 10%, to 2,312 as of September 30, 2019, compared to 2,101 as of September 30, 2018, offset by a 5% decrease in the average sales price of homes in backlog to \$645,000 as of September 30, 2019, compared to \$681,000 as of September 30, 2018.

Maracay's backlog dollar value increased 78% compared to the prior-year period due to an 87% increase in backlog units. The increase in backlog units is due to strong market conditions in Arizona and the success of recently opened communities. Pardee Homes' backlog dollar value increased 20% due to an increase in average sales price of 11% and an increase in backlog units of 8%. The increase in average sales price is largely due to a higher priced mix of homes in backlog from our San Diego, California division. The increase in backlog units was due to the 19% increase in net new home orders for the current quarter. Quadrant Homes' backlog dollar value decreased 39% as a result of a 31% decrease in backlog units and a 12% decrease in average sales price. The decrease in backlog units was a result of starting the quarter with lower backlog units resulting from generally slower year over year market conditions in the Seattle area. Trendmaker Homes' backlog dollar value increased 29% due to a 54% increase in backlog units, offset by a 16% decrease in average sales price. The increase in backlog units and the decrease in average sales price resulted primarily from our expansion into Dallas–Fort Worth, where we had 109 homes in backlog as of September 30, 2019 at an average sales price of \$381,000 which is lower than our legacy Houston and Austin operations. TRI Pointe Homes' backlog dollar value decreased 34% mainly due to a 28% decrease in backlog units as a result of starting the quarter with lower backlog units. Winchester Homes' backlog dollar value increased 28% due to a 29%

increase in backlog units. The increase in backlog units is a result of the 40% increase in net new home orders for the three months ended September 30, 2019.

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

	Three Months Ended September 30, 2019			Three Months Ended September 30, 2018			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	138	\$ 70,860	\$ 513	137	\$ 66,730	\$ 487	1 %	6 %	5 %
Pardee Homes	461	321,922	698	354	224,452	634	30 %	43 %	10 %
Quadrant Homes	56	49,258	880	73	65,576	898	(23)%	(25)%	(2)%
Trendmaker Homes	224	102,821	459	150	77,348	516	49 %	33 %	(11)%
TRI Pointe Homes	226	154,737	685	367	264,500	721	(38)%	(41)%	(5)%
Winchester Homes	82	46,671	569	124	73,162	590	(34)%	(36)%	(4)%
Total	1,187	\$ 746,269	\$ 629	1,205	\$ 771,768	\$ 640	(1)%	(3)%	(2)%

Home sales revenue decreased \$25.5 million, or 3%, to \$746.3 million for the three months ended September 30, 2019. The decrease was comprised of (i) \$11.5 million related to a decrease of 18 new homes delivered in the three months ended September 30, 2019 compared to the prior-year period, and (ii) \$14.0 million related to a decrease of \$11,000 in average sales price of homes delivered in the three months ended September 30, 2019 compared to the prior-year period.

Maracay home sales revenue increased 6% due to a 5% increase in average sales price. The increase in average sales price is due to product mix. Pardee Homes' home sales revenue increased 43% due to a 30% increase in new homes delivered and a 10% increase in average sales price. The increase in new homes delivered is due to a combination of timing and the increase in backlog units at the start of the current-year period compared to the prior-year period. The increase in average sales price was due to a product mix shift that included a greater proportion of deliveries from our higher priced California assets in the current-year period. Quadrant Homes' home sales revenue decreased 25% due to a 23% decrease in new homes delivered. The decrease in new homes delivered was due to starting the current-year period with a lower number of backlog units compared to the prior-year period. Trendmaker Homes' home sales revenue increased 33% due to a 49% increase in new homes delivered, offset by an 11% decrease in average sales price. The increase in new homes delivered was largely due to 82 deliveries from our Dallas–Fort Worth operations, along with higher volume in the Austin market. TRI Pointe Homes' home sales revenue decreased 41% due to a 38% decrease in new homes delivered and a 5% decrease in average sales price. The decrease in new homes delivered was driven by lower backlog units at the start of the current-year period compared to the prior-year period. Home sales revenue decreased at Winchester Homes by 36% due to a 34% decrease in new homes delivered and a 4% decrease in average sales price. The decrease in new homes delivered was due to lower backlog units at the start of the current-year period compared to the prior-year period.

Homebuilding Gross Margins (dollars in thousands)

	Three Months Ended September 30,			
	2019	%	2018	%
Home sales revenue	\$ 746,269	100.0%	\$ 771,768	100.0%
Cost of home sales	577,627	77.4%	607,053	78.7%
Homebuilding gross margin	168,642	22.6%	164,715	21.3%
Add: interest in cost of home sales	19,240	2.6%	20,128	2.6%
Add: impairments and lot option abandonments	1,029	0.1%	568	0.1%
Adjusted homebuilding gross margin ⁽¹⁾	\$ 188,911	25.3%	\$ 185,411	24.0%
Homebuilding gross margin percentage	22.6%		21.3%	
Adjusted homebuilding gross margin percentage ⁽¹⁾	25.3%		24.0%	

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

Our homebuilding gross margin percentage increased to 22.6% for the three months ended September 30, 2019 as compared to 21.3% for the prior-year period. The increase in gross margin percentage was due to higher revenue from some of our long-term California communities, which produce gross margins above the Company average. Excluding interest and impairment and lot option abandonments in cost of home sales, adjusted homebuilding gross margin percentage was 25.3% for the three months ended September 30, 2019, compared to 24.0% for the prior-year period.

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

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

	Three Months Ended September 30,		As a Percentage of Home Sales Revenue	
	2019	2018	2019	2018
Sales and marketing	\$ 47,834	\$ 44,854	6.4%	5.8%
General and administrative (G&A)	38,751	38,109	5.2%	4.9%
Total sales and marketing and G&A	\$ 86,585	\$ 82,963	11.6%	10.7%

Total sales and marketing and general and administrative (“SG&A”) as a percentage of home sales revenue increased to 11.6% for the three months ended September 30, 2019, compared to 10.7% in the prior-year period. Total SG&A expense increased \$3.6 million to \$86.6 million for the three months ended September 30, 2019 from \$83.0 million in the prior-year period.

Sales and marketing expense as a percentage of home sales revenue increased to 6.4% for the three months ended September 30, 2019, compared to 5.8% for the prior-year period. The increase was due primarily to advertising costs associated with the timing of current and future community openings. In addition, our ending community count increased to 150 as of September 30, 2019 from 125 as of September 30, 2018, resulting in higher fixed sales and marketing costs on a year over year basis. Sales and marketing expense increased to \$47.8 million for the three months ended September 30, 2019 compared to \$44.9 million in the prior-year period due to the higher costs associated with a higher community count.

General and administrative (“G&A”) expense as a percentage of home sales revenue increased to 5.2% of home sales revenue for the three months ended September 30, 2019 compared to 4.9% for the prior-year period largely due to lower leverage on our G&A expense as a result of the 3% decrease in homebuilding revenue compared to the same prior-year period. G&A expense increased to \$38.8 million for the three months ended September 30, 2019 compared to \$38.1 million for the prior-year period primarily as a result of additional headcount to support future growth in our new and existing markets, including our organic expansion into North Carolina in October 2018 and our acquisition of a Dallas–Fort Worth-based homebuilder in December 2018.

Interest

Interest, which we incurred principally to finance land acquisitions, land development and home construction, totaled \$22.4 million and \$23.9 million for the three months ended September 30, 2019 and 2018, respectively. All interest incurred in both periods was capitalized.

Income Tax

For the three months ended September 30, 2019, we recorded a tax provision of \$21.9 million based on an effective tax rate of 25.8%. For the three months ended September 30, 2018, we recorded a tax provision of \$19.7 million based on an effective tax rate of 23.5%. The increase in provision for income taxes is due to a \$1.1 million increase in income before income taxes to \$84.7 million for the three months ended September 30, 2019, compared to \$83.6 million for the prior-year period.

Financial Services Segment

Income before income taxes from our financial services operations decreased to \$2.2 million for the three months ended September 30, 2019 compared to \$2.3 million for the prior-year period. This decrease is due to higher expenses related to the early execution of growth initiatives at our TRI Pointe Assurance title and escrow services and our TRI Pointe Advantage property and casualty insurance agency operations. For the three months ended September 30, 2019, expense growth outpaced revenue growth, resulting in a decrease in profitability for these financial services.

Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018

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

	Nine Months Ended September 30, 2019			Nine Months Ended September 30, 2018			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	571	14.0	4.5	382	12.6	3.4	49 %	11 %	32 %
Pardee Homes	1,379	43.9	3.5	1,294	34.3	4.2	7 %	28 %	(17)%
Quadrant Homes	210	6.9	3.4	226	6.8	3.7	(7)%	1 %	(8)%
Trendmaker Homes	682	38.1	2.0	455	28.7	1.8	50 %	33 %	11 %
TRI Pointe Homes	882	29.7	3.3	1,133	32.5	3.9	(22)%	(9)%	(15)%
Winchester Homes	379	14.7	2.9	384	14.1	3.0	(1)%	4 %	(3)%
Total	4,103	147.3	3.1	3,874	129.0	3.3	6 %	14 %	(6)%

Net new home orders for the nine months ended September 30, 2019 increased by 229 orders, or 6%, to 4,103, compared to 3,874 during the prior-year period. The increase in net new home orders was due to a 14% increase in average selling communities offset by a 6% decrease in monthly absorption rates.

Maracay reported a 49% increase in net new home orders driven by a 32% increase in monthly absorption rate and an 11% increase in average selling communities. For the current nine-month period, Maracay experienced strong market conditions in Arizona, as demonstrated by a monthly absorption rate of 4.5 homes per community. Pardee Homes increased net new home orders by 7% due to a 28% increase in average community count offset by a 17% 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 San Diego markets. Overall demand for the period was strong at Pardee Homes with a monthly absorption rate of 3.5 homes per community. Net new home orders decreased 7% at Quadrant Homes due primarily to an 8% decrease in monthly absorption rate. The decrease in the monthly absorption rate at Quadrant Homes was due primarily to the substantially strong absorptions we experienced in the early months of 2018 compared to the same current-year period. Trendmaker Homes' net new home orders increased 50% due to a 33% increase in average selling communities and an 11% increase in monthly absorption rate. The increase in net new home orders and average selling communities was largely the result of the acquisition of a Dallas–Fort Worth-based homebuilder in the fourth quarter of 2018. During the nine months ended September 30, 2019, Trendmaker Homes reported 205 net new home orders from 13.1 average selling communities in Dallas–Fort Worth. The increase in the monthly absorption rate was due to improved market conditions in Houston and Austin during the nine months ended September 30, 2019 compared to the prior-year period. TRI Pointe Homes' net new home orders decreased 22% due to a 15% decrease in monthly absorption rate and a 9% decrease in average selling communities. The decrease in monthly absorption rates was driven primarily by activity at our core Bay Area market where we experienced stronger market conditions in the early half of 2018 compared to 2019. The decrease in average selling communities was due to the timing of community openings and closings, particularly in our Southern California market. Winchester Homes' net new home orders decreased 1% as a result of a 3% decrease in monthly absorption rate, offset by a 4% increase in average selling communities.

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

	Nine Months Ended September 30, 2019			Nine Months Ended September 30, 2018			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	318	\$ 166,074	\$ 522	383	\$ 182,134	\$ 476	(17)%	(9)%	10 %
Pardee Homes	1,028	651,484	634	1,005	648,208	645	2 %	1 %	(2)%
Quadrant Homes	167	162,960	976	241	191,686	795	(31)%	(15)%	23 %
Trendmaker Homes	628	289,951	462	389	194,731	501	61 %	49 %	(8)%
TRI Pointe Homes	749	519,280	693	983	710,561	723	(24)%	(27)%	(4)%
Winchester Homes	236	141,361	599	343	195,815	571	(31)%	(28)%	5 %
Total	3,126	\$ 1,931,110	\$ 618	3,344	\$ 2,123,135	\$ 635	(7)%	(9)%	(3)%

Home sales revenue decreased \$192.0 million, or 9%, to \$1.9 billion for the nine months ended September 30, 2019. The decrease was comprised of (i) \$138.4 million related to a decrease in new homes delivered to 3,126 for the nine months ended September 30, 2019 from 3,344 in the prior-year period, and (ii) \$53.6 million related to a \$17,000, or 3%, decrease in average sales price of homes delivered to \$618,000 for the nine months ended September 30, 2019, from \$635,000 in the prior-year period.

Maracay home sales revenue decreased 9% due to a 17% decrease in new homes delivered, offset by a 10% increase in average sales price. The decrease in new home deliveries was due to the timing of deliveries and the decrease in backlog units at the start of the current-year period compared to the prior-year period. Pardee Homes' home sales revenue increased 1% due to a 2% increase in new homes delivered. Quadrant Homes' home sales revenue decreased by 15% due to a 31% decrease in new homes delivered offset by a 23% increase in average sales price. The increase in average sales price was the result of delivering more units in some core greater Puget Sound markets, which tend to have higher price points. Trendmaker Homes' home sales revenue increased 49% due to a 61% increase in new homes delivered offset by an 8% decrease in average sales price compared to the prior year. The increase in new homes delivered was largely due to 231 deliveries from our Dallas–Fort Worth operations that were acquired in December 2018, along with higher volume in the Austin market. TRI Pointe Homes' home sales revenue decreased 27% due to a 24% decrease in new homes delivered and a 4% decrease in average sales price. The decrease in new homes delivered was driven by a lesser number of backlog units to start the current year compared to the prior-year period, and the decrease in average sales price was related to product mix in the quarter. Home sales revenue decreased at Winchester Homes by 28% due to a 31% decrease in homes delivered offset by a 5% increase in average sales price. The decrease in new homes delivered was due to lower backlog units at the start of the current-year period compared to the prior-year period with relatively flat net new home orders in the current-year period.

Homebuilding Gross Margins (dollars in thousands)

	Nine Months Ended September 30,			
	2019	%	2018	%
Home sales revenue	\$ 1,931,110	100.0%	\$ 2,123,135	100.0%
Cost of home sales	1,573,847	81.5%	1,661,651	78.3%
Homebuilding gross margin	357,263	18.5%	461,484	21.7%
Add: interest in cost of home sales	51,502	2.7%	53,926	2.5%
Add: impairments and lot option abandonments	6,519	0.3%	1,425	0.1%
Adjusted homebuilding gross margin ⁽¹⁾	\$ 415,284	21.5%	\$ 516,835	24.3%
Homebuilding gross margin percentage	18.5%		21.7%	
Adjusted homebuilding gross margin percentage ⁽¹⁾	21.5%		24.3%	

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

Our homebuilding gross margin percentage decreased to 18.5% for the nine months ended September 30, 2019 as compared to 21.7% for the prior-year period. The decrease in gross margin percentage was primarily due to the mix of deliveries and increased incentives offered in the back half of 2018 and into the first half of 2019, which we offered due to slower market conditions experienced during that period. Excluding interest and impairment and lot option abandonments in cost of home sales, adjusted homebuilding gross margin percentage was 21.5% for the nine months ended September 30, 2019, compared to 24.3% for the prior-year period.

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

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

	Nine Months Ended September 30,		As a Percentage of Home Sales Revenue	
	2019	2018	2019	2018
Sales and marketing	\$ 133,888	\$ 128,881	6.9%	6.1%
General and administrative (G&A)	114,202	111,406	5.9%	5.2%
Total sales and marketing and G&A	\$ 248,090	\$ 240,287	12.8%	11.3%

Total SG&A as a percentage of home sales revenue increased to 12.8% for the nine months ended September 30, 2019, compared to 11.3% for the prior-year period. Total SG&A expense increased \$7.8 million, to \$248.1 million for the nine months ended September 30, 2019 from \$240.3 million in the prior-year period.

Sales and marketing expense as a percentage of home sales revenue increased to 6.9% for the nine months ended September 30, 2019, compared to 6.1% for the prior-year period. The increase was due primarily to lower operating leverage on the fixed components of sales and marketing expenses as a result of the 9% decrease in homes sales revenue and the community count growth we have experienced in the current year, resulting in higher fixed sales and marketing costs on a year over year basis. Sales and marketing expense increased to \$133.9 million for the nine months ended September 30, 2019 compared to \$128.9 million in the prior-year period due to the active community count.

G&A expenses as a percentage of home sales revenue increased to 5.9% of home sales revenue for the nine months ended September 30, 2019 compared to 5.2% for the prior-year period as a result of lower operating leverage due to the 9% decrease in home sales revenue. G&A expenses increased to \$114.2 million for the nine months ended September 30, 2019 compared to \$111.4 million in the prior-year period primarily as a result of additional headcount to support future growth in our existing markets.

Interest

Interest, which was incurred principally to finance land acquisitions, land development and home construction, totaled \$67.7 million and \$67.1 million for the nine months ended September 30, 2019 and 2018, respectively. All interest incurred in both periods was capitalized.

Other Income (Expense), Net

Other income (expense), net for the nine months ended September 30, 2019 and 2018 was income of \$6.7 million and expense of \$379,000, respectively. During the three months ended March 31, 2019, we amended our existing tax sharing agreement with Weyerhaeuser Company (“Weyerhaeuser”), pursuant to which the parties agreed, among other things, that we had no further obligation to remit payment to Weyerhaeuser in connection with any potential utilization of certain deductions or losses associated with certain Weyerhaeuser entities with respect to federal and state taxes. As a result of the amendment, during the three months ended March 31, 2019, we recorded other income of \$6.0 million related to the reduction of our income tax liability to Weyerhaeuser.

Income Tax

For the nine months ended September 30, 2019, we recorded a tax provision of \$31.0 million based on an effective tax rate of 25.8%. For the nine months ended September 30, 2018, we recorded a tax provision of \$55.5 million based on an effective tax rate of 24.5%. The decrease in provision for income taxes is due to a \$105.8 million decrease in income before income taxes to \$120.2 million for the nine months ended September 30, 2019, compared to \$226.0 million for the prior-year period.

Financial Services Segment

Income before income taxes from our financial services operations decreased to \$5.1 million for the nine months ended September 30, 2019 compared to \$5.7 million for the prior-year period. The decrease in financial services income for the nine months ended September 30, 2019 compared to the prior-year period relates to the decline in new home deliveries we have experienced, which resulted in fewer opportunities to capture financial services income, as well as higher expenses related to the early execution of growth initiatives at our TRI Pointe Assurance title and escrow services and our TRI Pointe Advantage property and casualty insurance agency operations.

Lots Owned or Controlled by Segment

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

	September 30,		Increase (Decrease)	
	2019	2018	Amount	%
Lots Owned				
Maracay	2,095	2,501	(406)	(16)%
Pardee Homes	13,631	14,427	(796)	(6)%
Quadrant Homes	1,029	1,002	27	3 %
Trendmaker Homes	2,131	1,393	738	53 %
TRI Pointe Homes	2,954	3,107	(153)	(5)%
Winchester Homes	1,188	1,460	(272)	(19)%
Total	23,028	23,890	(862)	(4)%
Lots Controlled⁽¹⁾				
Maracay	1,395	710	685	96 %
Pardee Homes	296	977	(681)	(70)%
Quadrant Homes	398	853	(455)	(53)%
Trendmaker Homes	1,012	428	584	136 %
TRI Pointe Homes	2,235	1,107	1,128	102 %
Winchester Homes	392	436	(44)	(10)%
Total	5,728	4,511	1,217	27 %
Total Lots Owned or Controlled⁽¹⁾	28,756	28,401	355	1 %

⁽¹⁾ As of September 30, 2019 and 2018, lots controlled represented lots that were under land or lot option contracts or purchase contracts.

Liquidity and Capital Resources

Overview

Our principal uses of capital for the nine months ended September 30, 2019 were the repayment of debt, operating expenses, land purchases, land development, home construction and repurchases of our common stock. We used funds generated by our operations to meet our short-term working capital requirements. We monitor financing requirements to evaluate potential financing sources, including bank credit facilities and note offerings. We remain focused on generating positive margins in our homebuilding operations and acquiring desirable land positions in order to maintain a strong balance sheet and keep us poised for growth. As of September 30, 2019, we had total liquidity of \$548.9 million, including cash and cash equivalents of \$130.3 million and \$418.6 million of availability under our Credit Facility, as described below, after considering the borrowing base provisions and outstanding letters of credit.

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

Senior Notes

In June 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.

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 wholly owned subsidiary TRI Pointe Homes, Inc. (“TRI Pointe Homes”) are co-issuers of the 5.875% Senior Notes due 2024 (the “2024 Notes”) and the 4.375% Senior Notes that matured on June 15, 2019 (the “2019 Notes”). The 2024 Notes were issued at 98.15% of their aggregate principal amount. The net proceeds from the offering of the 2019 Notes and the 2024 Notes were \$861.3 million, after debt issuance costs and discounts. The 2024 Notes mature on June 15, 2024, with interest payable semiannually in arrears on June 15 and December 15. During the three months ended June 30, 2019, we repaid the remaining \$381.9 million of principal balance of the 2019 Notes upon maturity. During the year ended December 31, 2018, we repurchased and cancelled an aggregate principal amount of \$68.1 million of the 2019 Notes.

Our outstanding senior notes (the “Senior Notes”) contain covenants that restrict our ability to, among other things, create liens or other encumbrances, enter into sale and leaseback transactions, or merge or sell all or substantially all of our assets. These limitations are subject to a number of qualifications and exceptions. As of September 30, 2019, we were in compliance with the covenants required by our Senior Notes.

Loans Payable

On March 29, 2019, we entered into a Second Amended and Restated Credit Agreement (the “Credit Agreement”), which amended and restated our Amended and Restated Credit Agreement, dated as of July 7, 2015. The Credit Facility (as defined below), which matures on March 29, 2023, consists of a \$600 million revolving credit facility (the “Revolving Facility”) and a \$250 million term loan facility (the “Term Facility” and together with the Revolving Facility, the “Credit Facility”). The Term Facility includes a 90-day delayed draw provision, which allowed us to draw the full \$250 million from the Term Facility in June 2019 in connection with the maturity of the 2019 Notes. We may increase the Credit Facility to not more than \$1 billion in the aggregate, at our request, upon satisfaction of specified conditions. The Revolving Facility contains a sublimit of \$75 million for letters of credit. We may borrow under the Revolving Facility in the ordinary course of business to repay senior notes and fund our operations, including our land acquisition, land development and homebuilding activities. Borrowings under the Revolving Facility will be governed by, among other things, a borrowing base. Interest rates on borrowings under the Revolving Facility will be based on either a daily Eurocurrency base rate or a Eurocurrency rate, in either case, plus a spread ranging from 1.25% to 2.00%, depending on our leverage ratio. Interest rates on borrowings under the Term Facility will be based on either a daily Eurocurrency base rate or a Eurocurrency rate, in either case, plus a spread ranging from 1.10% to 1.85%, depending on the Company’s leverage ratio.

As of September 30, 2019, we had \$150 million outstanding debt under the Revolving Facility with an interest rate of 3.85% per annum and there was \$418.6 million of availability after considering the borrowing base provisions and outstanding letters of credit. As of September 30, 2019, we had \$250 million outstanding debt under the Term Facility with an interest rate of 3.45%. As of September 30, 2019, there was \$4.7 million of capitalized debt financing costs, included in other assets on our consolidated balance sheet, related to the Credit Facility that will amortize over the remaining term of the Credit Facility. Accrued interest, including loan commitment fees, related to the Credit Facility was \$754,000 and \$402,000 as of September 30, 2019 and December 31, 2018, respectively.

At September 30, 2019 and December 31, 2018, we had outstanding letters of credit of \$31.4 million and \$31.8 million, respectively. These letters of credit were issued to secure various financial obligations. We believe it is not probable that any outstanding letters of credit will be drawn upon.

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

Financial Covenants	Actual at September 30, 2019	Covenant Requirement at September 30, 2019
Consolidated Tangible Net Worth (Not less than \$1.35 billion plus 50% of net income and 50% of the net proceeds from equity offerings after December 31, 2018)	\$ 1,951,659	\$ 1,394,598
Leverage Test (Not to exceed 55%)	40.5%	≤55%
Interest Coverage Test (Not less than 1.5:1.0)	4.4	≥1.5

In addition, the Credit Facility limits the aggregate number of single family dwellings (where construction has commenced) owned by the Company or any guarantor that are not presold or model units to no more than the greater of (i) 50% of the number of housing unit closings (as defined) during the preceding 12 months; or (ii) 100% of the number of housing unit closings during the preceding 6 months. However, a failure to comply with this “Spec Unit Inventory Test” will not be an event of default or default, but will be excluded from the borrowing base as of the last day of the quarter in which the non-compliance occurs. The Credit Facility further requires that at least 97.0% of consolidated tangible net worth must be attributable to the Company and its guarantor subsidiaries, subject to certain grace periods.

As of September 30, 2019, we were in compliance with all of these financial covenants.

Stock Repurchase Program

On February 21, 2019, our board of directors discontinued and cancelled our 2018 Repurchase Program and approved our 2019 Repurchase Program, authorizing the repurchase of shares of common stock with an aggregate value of up to \$100 million through March 31, 2020. Purchases of common stock pursuant to the 2019 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 2019 Repurchase Program to repurchase any specific number or dollar amount of shares of common stock, and we may modify, suspend or discontinue the 2019 Repurchase Program at any time. Our management will determine the timing and amount of repurchase in its discretion based on a variety of factors, such as the market price of our common stock, corporate requirements, general market economic conditions and legal requirements. During the three and nine months ended September 30, 2019, we repurchased and retired an aggregate of 3,035,420 shares of our common stock under the 2019 Repurchase Program for \$41.7 million.

Leverage Ratios

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

	September 30, 2019	December 31, 2018
Loans Payable	\$ 400,000	\$ —
Senior Notes	1,033,058	1,410,804
Total debt	1,433,058	1,410,804
Stockholders' equity	2,111,685	2,056,924
Total capital	\$ 3,544,743	\$ 3,467,728
Ratio of debt-to-capital ⁽¹⁾	40.4%	40.7%
Total debt	\$ 1,433,058	\$ 1,410,804
Less: Cash and cash equivalents	(130,262)	(277,696)
Net debt	1,302,796	1,133,108
Stockholders' equity	2,111,685	2,056,924
Net capital	\$ 3,414,481	\$ 3,190,032
Ratio of net debt-to-net capital ⁽²⁾	38.2%	35.5%

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

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

Cash Flows—Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018

For the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018, the comparison of cash flows is as follows:

- Net cash used in operating activities increased by \$22.2 million to \$94.3 million for the nine months ended September 30, 2019, from net cash used of \$72.1 million for the nine months ended September 30, 2018. The change was comprised of offsetting activity, including (i) a decrease in net income to \$89.2 million for the nine months ended September 30, 2019 compared to \$170.5 million in the prior-year period, (ii) a decrease in cash collected to cash used of \$18.9 million in the nine months ended September 30, 2019 compared to cash provided of \$40.6 million in the prior-year period, (iii) an increase in cash used for accrued expenses and other liabilities to \$60.2 million in the nine months ended September 30, 2019 compared to \$17.7 million in the prior-year period, offset by (iv) a decrease in cash used for real estate inventory to \$142.6 million in the nine months ended September 30, 2019 compared to \$315.8 million in the prior-year period.
- Net cash used in investing activities was \$23.1 million for the nine months ended September 30, 2019, compared to \$26.4 million for the prior-year period. The decrease in cash used in investing activities was due mainly to a decrease in purchases of property and equipment.
- Net cash used in financing activities was \$30.1 million for the nine months ended September 30, 2019, compared to \$101.4 million for the same period in the prior year. The decrease in cash used was due to share repurchases of \$41.7 million for the nine months ended September 30, 2019 compared to \$139.3 million for the prior-year period, offset by lower net borrowings in the current year, down approximately \$24.0 million from the prior-year period.

Off-Balance Sheet Arrangements and Contractual Obligations

In the ordinary course of business, we enter into purchase contracts in order to procure lots for the construction of our homes. We are subject to customary obligations associated with entering into contracts for the purchase of land and improved lots. These purchase contracts typically require a cash deposit and the purchase of properties under these contracts is generally contingent upon satisfaction of certain requirements by the sellers, including obtaining applicable property and development entitlements. We also utilize option contracts with land sellers and land banking arrangements as a method of acquiring land in

staged takedowns, to help us manage the financial and market risk associated with land holdings, and to reduce the use of funds from our corporate financing sources. These option contracts and land banking arrangements generally require a non-refundable deposit for the right to acquire land and lots over a specified period of time at pre-determined prices. We generally have the right, at our discretion, to terminate our obligations under both purchase contracts and option contracts by forfeiting our cash deposit with no further financial responsibility to the land seller. In some cases, however, we may be contractually obligated to complete development work even if we terminate the option to procure land or lots. As of September 30, 2019, we had \$71.0 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 \$730.3 million (net of deposits). See Note 7, *Variable Interest Entities*, to the accompanying condensed notes to unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q.

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

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 September 30, 2019 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 September 30, 2019	Lots Owned as of September 30, 2019 ⁽³⁾	Backlog as of September 30, 2019 ⁽⁴⁾⁽⁵⁾	Homes Delivered for the Nine Months Ended September 30, 2019	Sales Price Range (in thousands) ⁽⁶⁾
Phoenix, Arizona							
City of Buckeye:							
Verrado Victory	2015	98	95	3	1	15	\$373 - \$405
Arroyo Seco	2020	44	—	44	—	—	\$419 - \$479
City of Chandler:							
Hawthorn Manor	2017	84	78	6	5	19	\$490 - \$564
Mission Estates	2019	26	5	21	12	5	\$537 - \$598
Windermere Ranch	2019	91	3	88	30	3	\$505 - \$545
City of Gilbert:							
Marathon Ranch	2018	63	46	17	13	37	\$520 - \$563
Lakes At Annecy	2019	216	15	201	37	15	\$264 - \$354
Annecy P3	2021	250	—	250	—	—	\$226 - \$301
Lakeview Trails	2019	92	16	76	45	16	\$552 - \$633
Lakeview Trails II	2020	68	—	68	—	—	\$554 - \$629
Copper Bend	2020	38	—	38	6	—	\$482 - \$501
Waterston	2020	331	—	331	—	—	\$487 - \$775
City of Goodyear:							
Villages at Rio Paseo	2018	117	47	70	13	29	\$190 - \$221
Cottages at Rio Paseo	2018	93	62	31	10	31	\$231 - \$252
City of Mesa:							
The Vista at Granite Crossing	2018	37	37	—	—	12	\$438 - \$513
Electron at Eastmark	2019	53	20	33	29	20	\$364 - \$441
City of Peoria:							
Legacy at The Meadows	2017	74	68	6	—	2	\$425 - \$451
Estates at The Meadows	2017	272	145	127	43	45	\$509 - \$598
Enclave at The Meadows	2018	126	53	73	40	24	\$397 - \$492
Deseo	2019	94	—	94	23	—	\$504 - \$598
City of Phoenix:							
Navarro Groves	2018	54	49	5	4	25	\$439 - \$484
Loma @ Avance	2019	124	2	122	39	2	\$371 - \$430
Ranger @ Avance	2020	145	—	145	26	—	\$411 - \$483
Piedmont @ Avance	2019	99	—	99	22	—	\$498 - \$513
Alta @ Avance	2020	26	—	26	5	—	\$607 - \$636
Town of Queen Creek:							
Pathfinder South At Spur Cross	2020	53	—	53	—	—	\$474 - \$494
Pathfinder North At Spur Cross	2020	65	—	65	—	—	\$565 - \$579
Closed Communities	N/A	—	—	—	—	—	
Phoenix, Arizona Total		2,833	741	2,092	403	300	
Tucson, Arizona							
Oro Valley:							
Desert Crest - Center Pointe Vistoso	2016	103	100	3	1	13	\$262 - \$307
The Cove - Center Pointe Vistoso	2016	83	83	—	—	1	\$345 - \$405
Summit N & S - Center Pointe Vistoso	2016	88	88	—	—	3	\$397 - \$432
The Pinnacle - Center Pointe Vistoso	2016	69	69	—	—	1	\$448 - \$480
Tucson, Arizona Total		343	340	3	1	18	
Maracay Total		3,176	1,081	2,095	404	318	

Pardee Homes

County, Project, City	Year of First Delivery ⁽¹⁾	Total Number of Lots ⁽²⁾	Cumulative Homes Delivered as of September 30, 2019	Lots Owned as of September 30, 2019 ⁽³⁾	Backlog as of September 30, 2019 ⁽⁴⁾⁽⁵⁾	Homes Delivered for the Nine Months Ended September 30, 2019	Sales Price Range (in thousands) ⁽⁶⁾
California							
San Diego County:							
Almeria	2017	80	80	—	—	5	\$1,440 - \$1,560
Vista Santa Fe	2019	44	—	44	17	—	\$1,760 - \$1,950
Sendero	2019	112	35	77	46	35	\$1,150 - \$1,365
Terraza	2019	81	29	52	29	29	\$1,260 - \$1,400
Carmel	2019	105	21	84	26	21	\$1,380 - \$1,510
Vista Del Mar	2019	79	17	62	17	17	\$1,530 - \$1,730
Pacific Highlands Ranch Future	2020	115	—	115	—	—	TBD
Sandstone	2018	81	81	—	—	32	\$640 - \$710
Lake Ridge	2018	129	71	58	11	37	\$710 - \$860
Veraz	2018	111	31	80	4	21	\$380 - \$465
Moderna	2018	44	44	—	—	34	\$355 - \$440
Marea	2020	143	—	143	—	—	\$370 - \$470
Solmar	2019	74	—	74	8	—	\$365 - \$465
Solmar Sur	2019	108	—	108	—	—	\$365 - \$465
PA61 Townhomes	2021	170	—	170	—	—	TBD
Meadowood	TBD	844	—	844	—	—	\$390 - \$630
South Otay Mesa	TBD	893	—	893	—	—	TBD
Los Angeles County:							
Verano	2017	95	49	46	8	12	\$575 - \$670
Arista	2017	143	82	61	11	14	\$725 - \$790
Cresta	2018	67	30	37	4	20	\$790 - \$890
Lyra	2019	84	14	70	21	14	\$650 - \$720
Sola	2019	104	31	73	38	31	\$545 - \$600
Skyline Ranch Future	TBD	882	—	882	—	—	\$550 - \$810
Riverside County:							
Vantage	2016	101	101	—	—	2	\$390 - \$410
Aura	2017	100	100	—	—	3	\$370 - \$385
Starling	2017	68	60	8	5	20	\$425 - \$440
Canyon Hills Future 70 x 115	TBD	125	—	125	—	—	TBD
Westlake	2020	163	—	163	—	—	\$310 - \$325
Elara	2016	260	234	26	24	32	\$310 - \$345
Daybreak	2017	159	93	66	33	19	\$350 - \$370
Cascade	2017	194	137	57	18	37	\$330 - \$345
Abrio	2018	113	53	60	24	21	\$400 - \$435
Beacon	2018	106	54	52	19	36	\$485 - \$525
Alisio	2019	84	30	54	18	30	\$295 - \$330
Vita	2019	113	17	96	6	17	\$310 - \$335
Avid	2019	69	12	57	8	12	\$340 - \$365
Elan	2019	102	6	96	15	6	\$400 - \$420
Mira	2019	90	8	82	5	8	\$365 - \$395
Sundance Future Active Adult	TBD	330	—	330	—	—	TBD
Avena	2018	84	45	39	10	20	\$450 - \$475
Tamarack	2018	84	71	13	5	16	\$480 - \$520
Braeburn	2018	82	25	57	29	17	\$405 - \$440
Canvas	2018	89	33	56	30	25	\$390 - \$415
Kadence	2018	85	26	59	30	18	\$410 - \$425
Newpark	2018	93	25	68	17	17	\$440 - \$485

Easton	2018	92	23	69	14	18	\$465 - \$520
Tournament Hills Future	TBD	268	—	268	—	—	TBD
Banning	2020	4,348	—	4,348	—	—	TBD

San Joaquin County:							
Bear Creek	TBD	1,252	—	1,252	—	—	TBD
California Total		13,242	1,768	11,474	550	696	
Nevada							
Clark County:							
North Peak	2015	176	176	—	—	1	\$312 - \$370
Castle Rock	2015	183	183	—	—	4	\$365 - \$455
Escala	2016	64	64	—	—	1	\$520 - \$590
Strada	2017	83	65	18	15	6	\$425 - \$490
Strada 2.0	2019	92	—	92	9	—	\$430 - \$545
Linea	2018	123	94	29	17	46	\$365 - \$405
Arden	2020	79	—	79	—	—	\$360 - \$400
Capri	2020	114	—	114	—	—	TBD
Arden 2.0	2021	154	—	154	—	—	TBD
Capri 2.0	2021	214	—	214	—	—	TBD
Meridian	2016	62	62	—	—	1	\$595 - \$690
Pebble Estate Future	TBD	8	—	8	—	—	TBD
Encanto	2016	51	51	—	—	2	\$475 - \$530
Luma	2018	63	63	—	—	22	\$490 - \$530
Evolve	2019	74	—	74	35	—	\$300 - \$325
Corterra	2018	53	18	35	13	15	\$450 - \$550
Highline	2020	59	—	59			
Keystone	2017	70	69	1	1	6	\$465 - \$550
Cobalt	2017	107	68	39	8	22	\$380 - \$455
Onyx	2018	88	40	48	12	26	\$460 - \$490
Axis	2017	52	49	3	1	16	\$860 - \$1,125
Axis at the Canyons	2019	26	1	25	13	1	\$780 - \$905
Midnight Ridge	2019	104	—	104	10	—	\$510 - \$630
Pivot	2017	88	76	12	—	32	\$405 - \$470
Strada at Pivot	2017	27	27	—	9	2	\$450 - \$480
Nova Ridge	2017	81	60	21	7	21	\$680 - \$840
Nova Ridge at the Cliffs	2019	27	—	27	6	—	\$680 - \$840
Tera Luna	2018	116	20	96	12	16	\$545 - \$660
Indogo	2018	202	61	141	12	39	\$300 - \$355
Larimar	2018	106	24	82	7	20	\$350 - \$405
Blackstone	2018	105	36	69	12	31	\$415 - \$500
35 x 90 Product	TBD	140	—	140	—	—	TBD
Cirrus	2019	54	2	52	4	2	\$360 - \$395
Silverado	2020	305	—	305	—	—	TBD
Sandalwood	2020	116	—	116	—	—	\$685 - \$815
Nevada Total		3,466	1,309	2,157	203	332	
Pardee Total		16,708	3,077	13,631	753	1,028	

Quadrant Homes

<u>County, Project, City</u>	<u>Year of First Delivery⁽¹⁾</u>	<u>Total Number of Lots⁽²⁾</u>	<u>Cumulative Homes Delivered as of September 30, 2019</u>	<u>Lots Owned as of September 30, 2019⁽³⁾</u>	<u>Backlog as of September 30, 2019⁽⁴⁾⁽⁵⁾</u>	<u>Homes Delivered for the Nine Months Ended September 30, 2019</u>	<u>Sales Price Range (in thousands)⁽⁶⁾</u>
Washington							
Snohomish County:							
Grove North, Bothell	2019	43	5	38	6	5	\$770 - \$880
Grove South, Bothell	2019	9	1	8	4	1	\$770 - \$820
King County:							
Vareze, Kirkland	2020	82	—	82	—	—	\$690 - \$880
Inglewood Landing, Sammamish	2019	21	15	6	5	15	\$1,115 - \$1,295
Kirkwood Terrace, Sammamish	2018	12	11	1	1	6	\$1,800
Cedar Landing, North Bend	2019	138	4	134	30	4	\$740 - \$880
Monarch Ridge, Sammamish	2019	59	—	59	8	—	\$970 - \$1,245
Overlook at Summit Park, Maple Valley	2019	126	17	109	15	17	\$570 - \$750
Aurea, Sammamish	2019	41	1	40	2	1	\$675 - \$846
Aldea, Newcastle	2019	129	30	99	14	30	\$665 - \$900
Lario, Bellevue	2020	46	—	46	—	—	\$765 - \$1,030
Lakeview Crest, Renton	2020	17	—	17	—	—	\$1,450 - \$1,620
Eagles Glen, Sammamish	2020	10	—	10	—	—	\$1,100 - \$1,700
Proctor Willows (Mira), Redmond	2023	173	—	173	—	—	\$680 - \$890
Perrinville Townhomes, Lynnwood	2021	42	—	42	—	—	\$535 - \$655
Finn Meadows, Kirkland	2020	10	—	10	—	—	\$880 - \$1,100
Hazelwood Gardens, Newcastle	2021	15	—	15	—	—	\$1,100 - \$1,260
Kitsap County:							
Lone Pine, Poulsbo	2019	15	6	9	4	6	\$474 - \$530
Blue Heron, Poulsbo	2021	85	—	85	—	—	\$489 - \$664
Poulsbo Meadows, Poulsbo	2021	46	—	46	—	—	\$494 - \$530
Closed Communities	N/A	—	—	—	—	82	N/A
Washington Total		1,119	90	1,029	89	167	
Quadrant Total		1,119	90	1,029	89	167	

Trendmaker Homes

			Cumulative Homes Delivered as of September 30, 2019	Lots Owned as of September 30, 2019 ⁽³⁾	Backlog as of September 30, 2019 ⁽⁴⁾⁽⁵⁾	Homes Delivered for the Nine Months Ended September 30, 2019	Sales Price Range (in thousands) ⁽⁶⁾
County, Project, City	Year of First Delivery ⁽¹⁾	Total Number of Lots ⁽²⁾					
Texas							
Brazoria County:							
Pomona, Manvel	2015	49	47	2	1	12	\$446 - \$489
Rise Meridiana	2016	47	39	8	3	9	\$292 - \$350
Fort Bend County:							
Cross Creek Ranch 60', Fulshear	2013	34	3	31	13	8	\$415 - \$500
Cross Creek Ranch 65', Fulshear	2013	77	47	30	4	13	\$442 - \$559
Cross Creek Ranch 70', Fulshear	2013	89	67	22	12	15	\$510 - \$587
Cross Creek Ranch 80', Fulshear	2013	63	41	22	15	16	\$600 - \$655
Cross Creek Ranch 90', Fulshear	2013	37	30	7	1	2	\$695 - \$829
Fulshear Run 1/2 Acre, Richmond	2016	145	47	98	1	16	\$573 - \$699
Harvest Green 75', Richmond	2015	53	37	16	7	6	\$449 - \$574
Sienna Plantation 85', Missouri City	2015	54	35	19	1	5	\$546 - \$717
Grayson Woods 60'	TBD	17	(9)	26	—	—	\$400 - \$480
Grayson Woods 70'	TBD	10	—	10	4	—	\$480 - \$555
Katy Gaston	TBD	129	—	129	—	—	TBD
Harris County:							
The Groves, Humble	2015	117	86	31	6	14	\$298 - \$360
Lakes of Creekside	2015	38	26	12	2	10	\$460 - \$611
Balmoral 50'	2019	24	1	23	4	1	\$270 - \$351
Bridgeland '80, Cypress	2015	118	91	27	14	15	\$555 - \$683
Bridgeland 70'	2018	41	13	28	6	6	\$511 - \$574
Villas at Bridgeland 50'	2018	48	13	35	1	11	\$356 - \$409
Elyson 70', Cypress	2016	20	20	—	—	2	\$463 - \$482
Falls at Dry Creek	2019	7	—	7	3	—	TBD
Hidden Arbor, Cypress	2015	129	102	27	—	—	\$419 - \$599
Clear Lake, Houston	2015	722	508	214	54	75	\$350 - \$698
Montgomery County:							
Northgrove, Tomball	TBD	25	7	18	—	—	TBD
Bender's Landing Estates, Spring	2014	104	104	—	—	13	\$553 - \$555
The Woodlands, Creekside Park	2015	127	104	23	13	38	\$423 - \$729
Royal Brook, Porter	2018	25	1	24	2	1	\$393 - \$479
Waller County:							
LakeHouse	2019	350	12	338	28	12	\$263 - \$575
Williamson County:							
Crystal Falls	2016	29	25	4	—	—	\$150
Rancho Sienna 60'	2016	51	32	19	4	14	\$339 - \$446
Rancho Sienna 80'	2018	5	5	—	—	3	\$456 - \$519
Highlands at Mayfield Ranch 50'	2018	46	23	23	8	15	\$282 - \$375
Highlands at Mayfield Ranch 60'	2018	23	3	20	7	11	\$335 - \$406
Rancho Sienna 50'	2019	38	3	35	4	3	\$291 - \$394
Palmera Ridge	2019	30	7	23	20	7	\$272 - \$344
Hays County:							
Belterra 60', Austin	2017	36	41	(5)	—	10	\$419 - \$458
Belterra 80', Austin	2016	37	37	—	—	3	\$552 - \$562
Headwaters, Dripping Springs	2017	30	30	—	—	7	\$453 - \$485
6 Creeks 50' Section 1 & 2	2019	35	—	35	—	—	\$269
6 Creeks 60' Section 1 & 2	2019	15	—	15	—	—	\$328
Travis County:							

Lakes Edge 70'	2018	45	27	18	13	19	\$645 - \$830
Lakes Edge 80'	2018	14	7	7	7	3	\$742 - \$792
Turner's Crossing (Land)	TBD	—	—	324	—	—	TBD

Collin County:							
Miramonte, Frisco	2016	62	49	13	5	13	\$475 - \$560
Retreat at Craig Ranch, McKinney	2012	165	152	13	4	9	\$375 - \$415
Dallas County:							
Vineyards, Rowlett	2017	40	22	18	9	10	\$368 - \$480
Denton County:							
Glenview, Frisco	2017	50	25	25	4	17	\$345 - \$485
Paloma Creek, Little Elm		267	169	98	9	25	\$275 - \$390
Parks at Legacy, Prosper	2017	55	28	27	5	14	\$384 - \$495
Shadow Creek, Hickory Creek	2016	40	40	—	—	4	\$360 - \$400
Valencia, Little Elm	2016	82	51	31	5	14	\$350 - \$444
Villages of Carmel, Denton	2017	96	71	25	13	29	\$290 - \$360
Kaufman County:							
Park Trails, Forney	2015	85	84	1	—	11	\$240 - \$280
Rockwall County:							
Heath Golf and Yacht, Heath	2016	100	68	32	9	11	\$294 - \$490
Woodcreek, Fate	2017	107	81	26	12	19	\$267 - \$330
Tarrant County:							
Chisholm Trail Ranch, Fort Worth	2017	90	62	28	7	18	\$270 - \$375
Lakes of River Trails, Fort Worth	2011	158	140	18	16	19	\$317 - \$416
Ventana, Benbrook	2017	78	47	31	11	18	\$318 - \$430
Closed Communities	N/A	—	—	—	—	2	
Texas Total		4,608	2,801	2,131	367	628	
Trendmaker Homes Total		4,608	2,801	2,131	367	628	

TRI Pointe Homes

County, Project, City	Year of First Delivery ⁽¹⁾	Total Number of Lots ⁽²⁾	Cumulative Homes Delivered as of September 30, 2019	Lots Owned as of September 30, 2019 ⁽³⁾	Backlog as of September 30, 2019 ⁽⁴⁾⁽⁵⁾	Homes Delivered for the Nine Months Ended September 30, 2019	Sales Price Range (in thousands) ⁽⁶⁾
Southern California							
Orange County:							
Aria, Rancho Mission Viejo	2016	151	151	—	—	5	\$687 - \$719
Viridian	2018	72	37	35	22	20	\$895 - \$994
Sterling Row Townhomes, Irvine	2017	96	96	—	—	1	\$572 - \$779
Varenna at Orchard Hills, Irvine	2016	111	93	18	6	20	\$1,225 - \$1,343
Alston, Anaheim	2017	75	75	—	—	15	\$828 - \$869
StrataPointe, Buena Park	2017	149	148	1	1	23	\$549 - \$737
Lyric	2019	70	28	42	8	28	\$790 - \$943
Citron at Bedford	2019	101	23	78	22	23	\$370 - \$415
Windbourne	2020	19	—	19	13	—	\$1,026 - \$1,201
Cerise	2020	8	—	8	—	—	TBD
Violet	2020	11	—	11	—	—	TBD
Claret	2020	6	—	6	—	—	TBD
San Diego County:							
Prism at Weston	2018	142	69	73	27	35	\$574 - \$632
Talus at Weston	2018	63	56	7	2	24	\$680 - \$730
Riverside County:							
Terrassa Court, Corona	2015	94	94	—	—	1	\$421 - \$499
Terrassa Villas, Corona	2015	52	52	—	—	6	\$491 - \$554
Cassis at Rancho Soleo	2020	79	—	79	—	—	TBD
Cava at Rancho Soleo	2020	63	—	63	—	—	TBD
Cerro at Rancho Soleo	2020	103	—	103	—	—	TBD
Los Angeles County:							
VuePointe, El Monte	2017	102	102	—	—	15	\$479 - \$654
Bradford @ Rosedale, Azusa	2017	52	52	—	—	1	\$816 - \$906
Lucera at Aliento	2017	67	67	—	—	5	\$622 - \$648
Tierno at Aliento	2017	63	49	14	—	—	\$667 - \$695
Tierno II at Aliento	2018	63	26	37	8	16	\$642 - \$708
Paloma at West Creek	2018	155	93	62	30	43	\$444 - \$530
Mystral	2019	78	21	57	22	21	\$635 - \$684
Celestia	2019	72	30	42	16	30	\$597 - \$626
San Bernardino County:							
St. James at Park Place, Ontario	2015	125	119	6	6	—	\$509 - \$560
St. James III at Park Place, Ontario	2018	82	65	17	13	28	\$509 - \$560
Ivy at The Preserve	2020	113	—	113	2	—	\$395 - \$440
Hazel at The Preserve	2020	133	—	133	2	—	\$360 - \$430
Tempo at The Resort	2020	80	—	80	—	—	TBD
Southern California Total		2,650	1,546	1,104	200	360	
Northern California							
Contra Costa County:							
Wynstone at Barrington, Brentwood	2017	92	92	—	—	15	\$640 - \$675
Greyson Place	2019	44	7	37	9	7	\$805 - \$905
Santa Clara County:							
Madison Gate	2018	65	30	35	13	6	\$729 - \$1,134
Blanc at Glen Loma	2019	49	—	49	5	—	\$765 - \$815
Noir at Glen Loma	2019	64	—	64	6	—	\$870 - \$920
Lotus at Urban Oak	2022	43	—	43	—	—	\$930 - \$1,054
Solano County:							

Bloom at Green Valley, Fairfield	2018	91	52	39	22	21	\$548 - \$588
Harvest at Green Valley, Fairfield	2018	56	41	15	8	13	\$550 - \$630

Lantana, Fairfield	2019	133	29	104	28	29	\$478 - \$523
San Joaquin County:							
Sundance, Mountain House	2015	113	108	5	—	—	\$648 - \$721
Sundance II, Mountain House	2017	138	82	56	14	23	\$648 - \$721
Alameda County:							
Commercial, Alameda Landing	2019	2	2	—	—	2	\$550
Blackstone at the Cannery, Hayward SFA	2016	105	105	—	—	1	\$666 - \$776
Slate at Jordan Ranch, Dublin	2017	56	56	—	—	5	\$1,125 - \$1,225
Onyx at Jordan Ranch, Dublin	2017	105	71	34	8	17	\$914 - \$966
Quartz at Jordan Ranch, Dublin	2018	45	45	—	—	15	\$958 - \$1,098
Apex, Fremont	2018	77	51	26	1	12	\$684 - \$946
Palm, Fremont	2019	31	8	23	3	8	\$2,150 - \$2,292
Ellis at Central Station, Oakland	2020	128	—	128	—	—	\$728 - \$813
Sacramento County:							
Natomas	TBD	94	—	94	—	—	\$344 - \$410
Mangini - Brookstone	2020	50	—	50	—	—	\$582 - \$654
Mangini - Waterstone	2020	37	—	37	—	—	\$638 - \$705
Placer County:							
La Madera	2019	102	—	102	18	—	\$451 - \$531
San Francisco County:							
Lofton at NOPO, San Francisco	2020	54	—	54	—	—	\$1,145 - \$1,388
Northern California Total		1,774	779	995	135	174	
California Total		4,424	2,325	2,099	335	534	
Colorado							
Douglas County:							
Terrain Ravenwood Village (3500)	2018	157	76	81	21	42	\$375 - \$427
Terrain Ravenwood Village (4000)	2018	100	60	40	16	27	\$403 - \$479
Trails at Crowfoot	2020	100	—	100	—	—	TBD
Sterling Ranch	2020	80	—	80	—	—	TBD
The Canyons	2020	89	—	89	—	—	TBD
Terrain Sunstone	2020	74	—	74	—	—	TBD
Jefferson County:							
Candelas 6000 Series, Arvada	2015	76	76	—	—	1	\$516 - \$656
Candelas 3500 Series, Arvada	2016	97	97	—	—	16	\$408 - \$466
Candelas 5000 Series, Arvada	2017	62	62	—	—	18	\$516 - \$584
Candelas 4020 Series, Arvada	2019	98	35	63	21	35	\$458 - \$520
Candelas TH, Arvada	2020	92	—	92	—	—	TBD
Crown Point, Westminster	2019	64	18	46	31	18	\$430 - \$485
Arapahoe County:							
Whispering Pines, Aurora	2016	115	86	29	17	22	\$611 - \$681
Adonea 3500, Aurora	2020	71	—	71	—	—	
Adams County:							
Amber Creek, Thornton	2017	121	104	17	10	36	\$398 - \$490
Reunion Alley	2020	50	—	50	—	—	
Colorado Total		1,446	614	832	116	215	
North Carolina							
Wake County:							
Lakeview Townhomes, Raleigh	2020	23	—	23	—	—	TBD
North Carolina Total		23	—	23	—	—	
TRI Pointe Total		5,893	2,939	2,954	451	749	

Winchester Homes

County, Project, City	Year of First Delivery ⁽¹⁾	Total Number of Lots ⁽²⁾	Cumulative Homes Delivered as of September 30, 2019	Lots Owned as of September 30, 2019 ⁽³⁾	Backlog as of September 30, 2019 ⁽⁴⁾⁽⁵⁾	Homes Delivered for the Nine Months Ended September 30, 2019	Sales Price Range (in thousands) ⁽⁶⁾
Maryland							
Anne Arundel County:							
Two Rivers Townhomes, Crofton	2017	132	56	76	13	17	\$450 - \$560
Two Rivers Cascades SFD, Crofton	2018	43	25	18	1	9	\$550 - \$610
Watson's Glen, Millersville	2015	103	4	99	—	—	TBD
Frederick County:							
Landsdale, Monrovia		—					
Landsdale SFD	2015	222	141	81	30	16	\$495 - \$597
Landsdale Townhomes	2015	100	89	11	5	13	\$330 - \$383
Landsdale TND Neo SFD	2015	77	50	27	14	6	\$440 - \$473
Montgomery County:							
Cabin Branch, Clarksburg							
Cabin Branch SFD	2014	359	227	132	19	23	\$700 - \$775
Cabin Branch Avenue Townhomes	2017	86	72	14	8	20	\$420 - \$488
Cabin Branch Crossings Townhomes	2019	98	—	98	2	—	\$420 - \$490
Cabin Branch Manor Townhomes	2014	444	329	115	17	30	\$393 - \$474
Preserve at Stoney Spring - Lots for Sale	N/A	3	—	3	—	—	N/A
Glenmont MetroCenter, Silver Spring	2016	171	111	60	24	36	\$435 - \$513
Chapman Row, Rockville	2019	61	1	60	8	1	\$700 - \$750
North Quarter, North Bethesda	2019	104	—	104	3	—	\$620 - \$670
Closed Communities	N/A	—	—	—	—	1	
Maryland Total		2,003	1,105	898	144	172	
Virginia							
Fairfax County:							
Stuart Mill, Oakton - Lots for Sale	N/A	5	—	5	—	—	N/A
Westgrove, Fairfax	2018	24	13	11	7	12	\$1,001 - \$1,107
West Oaks Corner, Fairfax	2019	188	—	188	40	—	\$670 - \$770
Bren Pointe SFA, Fairfax	2020	7	—	7	—	—	TBD
Loudoun County:							
Brambleton, Ashburn							
West Park SFD	2018	53	36	17	17	16	\$700 - \$724
Birchwood Bungalows AA	2018	46	25	21	12	16	\$577 - \$634
Birchwood Carriages AA	2019	17	—	17	14	—	\$524 - \$553
Willowsford Grant II, Aldie	2016	55	31	24	14	8	\$950 - \$1,226
Closed Communities	N/A	—	—	—	—	12	N/A
Virginia Total		395	105	290	104	64	
Winchester Total		2,398	1,210	1,188	248	236	
Combined Company Total		33,902	11,198	23,028	2,312	3,126	

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

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

(3) Owned lots as of September 30, 2019 include owned lots in backlog as of September 30, 2019.

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

(5) Of the total homes subject to pending sales contracts that have not been delivered as of September 30, 2019, 1,602 homes are under construction, 318 homes have completed construction, and 392 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, 2018 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 842, 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, 2018. 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 842.

Recently Issued Accounting Standards

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks related to fluctuations in interest rates on our outstanding debt. We did not utilize swaps, forward or option contracts on interest rates or commodities, or other types of derivative financial instruments as of or during the nine months ended September 30, 2019. We did not enter into during the nine months ended September 30, 2019, and currently do not hold, derivatives for trading or speculative purposes.

Item 4. Controls and Procedures

We have established disclosure controls and procedures to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and accumulated and communicated to management, including the Chief Executive Officer (the "Principal Executive Officer") and Chief Financial Officer (the "Principal Financial Officer"), as appropriate, to allow timely decisions regarding required disclosure. Under the supervision and with the participation of senior management, including our Principal Executive Officer and Principal Financial Officer, we evaluated our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2019.

Our management, including our Principal Executive Officer and Principal Financial Officer, has evaluated our internal control over financial reporting to determine whether any change occurred during the three months ended September 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the three months ended September 30, 2019.

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, 2018. 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 21, 2019, our board of directors discontinued and cancelled our 2018 Repurchase Program and approved our 2019 Repurchase Program, authorizing the repurchase of shares of common stock with an aggregate value of up to \$100 million through March 31, 2020. Purchases of common stock pursuant to the 2019 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 2019 Repurchase Program to repurchase any specific number or dollar amount of shares of common stock, and we may modify, suspend or discontinue the 2019 Repurchase Program at any time. Our management will determine the timing and amount of repurchase in its discretion based on a variety of factors, such as the market price of our common stock, corporate requirements, general market economic conditions and legal requirements. During the three and nine months ended September 30, 2019, we repurchased and retired an aggregate of 3,035,420 shares of our common stock under the 2019 Repurchase Program for \$41.7 million.

During the three months ended September 30, 2019, we repurchased and retired the following shares pursuant to our 2019 Repurchase Program:

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced program	Approximate dollar value of shares that may yet be purchased under the program
July 1, 2019 to July 31, 2019	—	\$ —	—	\$ —
August 1, 2019 to August 31, 2019	1,705,620	\$ 13.58	1,705,620	\$ 76,844,670
September 1, 2019 to September 30, 2019	1,329,800	\$ 13.97	1,329,800	\$ 58,265,017
Total	<u>3,035,420</u>	<u>\$ 13.75</u>	<u>3,035,420</u>	

Item 6. Exhibits

<i>Exhibit Number</i>	<i>Exhibit Description</i>
<u>3.1</u>	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))
<u>3.2</u>	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))
<u>10.1</u> [†]	Letter agreement by and between TRI Pointe Group, Inc. and Michael D. Grubbs, dated as of July 1, 2019 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (filed July 1, 2019))
<u>31.1</u>	Chief Executive Officer Section 302 Certification of the Sarbanes-Oxley Act of 2002
<u>31.2</u>	Chief Financial Officer Section 302 Certification of the Sarbanes-Oxley Act of 2002
<u>32.1</u>	Chief Executive Officer Section 906 Certification of the Sarbanes-Oxley Act of 2002
<u>32.2</u>	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 nine months ended September 30, 2019, formatted in Inline eXtensible Business Reporting Language (iXBRL): (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.
104	Cover page from TRI Pointe Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in Inline XBRL (and contained in Exhibit 101).
[†] Management Contract or Compensatory Plan or Arrangement	

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.

Date: October 31, 2019

By: /s/ Douglas F. Bauer

Douglas F. Bauer
Chief Executive Officer
(Principal Executive Officer)

Date: October 31, 2019

By: /s/ Michael D. Grubbs

Michael D. Grubbs
Chief Financial Officer
(Principal Financial Officer)

SECTION 302 CERTIFICATION

I, Douglas F. Bauer, certify that:

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

Date: October 31, 2019

/s/ Douglas F. Bauer

Douglas F. Bauer

Chief Executive Officer (Principal Executive Officer)

SECTION 302 CERTIFICATION

I, Michael D. Grubbs, certify that:

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

Date: October 31, 2019

/s/ Michael D. Grubbs

Michael D. Grubbs

Chief Financial Officer (Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Report of TRI Pointe Group, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Douglas F. Bauer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 31, 2019

/s/ Douglas F. Bauer

Douglas F. Bauer

Chief Executive Officer (Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Report of TRI Pointe Group, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael D. Grubbs, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 31, 2019

/s/ Michael D. Grubbs

Michael D. Grubbs

Chief Financial Officer (Principal Financial Officer)