TRI Pointe Group, Inc.
Form 10-Q
July 27, 2016

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-35796

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

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

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

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

Large accelerated filer ý	Accelerated filer ¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
Registrant’s shares of common stock outstanding at July 18, 2016: 160,642,162

EXPLANATORY NOTE

As used in this Quarterly Report on Form 10-Q (including the consolidated financial statements and condensed notes thereto in this report), unless the context otherwise requires:

- "Exchange Act" refers to the Securities Exchange Act of 1934, as amended;
- "GAAP" refers to U.S. generally accepted accounting principles;
- "SEC" refers to the United States Securities and Exchange Commission;
- "Securities Act" refers to the Securities Act of 1933, as amended;
- "TRI Pointe Homes" refers to TRI Pointe Homes, Inc., a Delaware corporation;
- "TRI Pointe Group" refers to TRI Pointe Group, Inc., a Delaware corporation;
- "Weyerhaeuser" refers to Weyerhaeuser Company, a Washington corporation and the former parent of WRECO; and
- "WRECO" refers to Weyerhaeuser Real Estate Company, a Washington corporation, which following its acquisition by TRI Pointe on July 7, 2014, was renamed "TRI Pointe Holdings, Inc."

Additionally, references to "TRI Pointe", "the Company", "we", "us" or "our" in this Quarterly Report on Form 10-Q (includin the consolidated financial statements and condensed notes thereto in this report) have the following meanings, unless the context otherwise requires:

- For periods prior to July 7, 2015: TRI Pointe Homes and its subsidiaries; and
- For periods from and after July 7, 2015: TRI Pointe Group and its subsidiaries.

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June 30, 2016

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2016 (unaudited)	December 31, 2015
Assets		
Cash and cash equivalents	$117,509	$214,485
Receivables	34,671	43,710
Real estate inventories	2,840,213	2,519,273
Investments in unconsolidated entities	17,549	18,999
Goodwill and other intangible assets, net	161,762	162,029
Deferred tax assets, net	116,700	130,657
Other assets	47,860	48,918
Total assets	$3,336,264	$3,138,071
Liabilities		
Accounts payable	$79,818	$64,840
Accrued expenses and other liabilities	198,793	216,263
Unsecured revolving credit facility	100,000	299,392
Seller financed loans	17,758	2,434
Senior notes, net	1,165,114	868,679
Total liabilities	1,561,483	1,451,608
Commitments and contingencies (Note 14)		
Equity		
Stockholders' Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized; no shares issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	—	—
Common stock, $0.01 par value, 500,000,000 shares authorized; 160,865,251 and 161,813,750 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	1,609	1,618
Additional paid-in capital	901,348	911,197
Retained earnings	854,344	751,868
Total stockholders' equity	1,757,301	1,664,683
Noncontrolling interests	17,480	21,780
Total equity	1,774,781	1,686,463
Total liabilities and equity	$3,336,264	$3,138,071

See accompanying condensed notes to the unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Homebuilding:				
Home sales revenue	$556,925	$427,238	$979,980	$801,503
Land and lot sales revenue	67,314	67,490	67,669	69,490
Other operations revenue	604	607	1,184	1,600
Total revenues	624,843	495,335	1,048,833	872,593
Cost of home sales	432,738	341,742	757,237	641,648
Cost of land and lot sales	14,460	11,564	15,239	13,873
Other operations expense	583	572	1,149	1,134
Sales and marketing	32,448	25,634	58,769	48,920
General and administrative	30,269	28,261	58,665	56,414
Restructuring charges	215	498	350	720
Homebuilding income from operations	114,130	87,064	157,424	109,884
Equity in income (loss) of unconsolidated entities	215	(39)	201	68
Other income (loss), net	151	(31)	266	225
Homebuilding income before income taxes	114,496	86,994	157,891	110,177
Financial Services:				
Revenues	379	182	527	182
Expenses	53	58	111	84
Equity in income (loss) of unconsolidated entities	1,284	(116)	1,999	(149)
Financial services income (loss) before income taxes	1,610	8	2,415	(51)
Income before income taxes	116,106	87,002	160,306	110,126
Provision for income taxes	(41,913)	(30,240)	(57,403)	(38,067)
Net income	74,193	56,762	102,903	72,059
Net income attributable to noncontrolling interests	(267)	(1,832)	(427)	(1,832)
Net income available to common stockholders	$73,926	$54,930	$102,476	$70,227
Earnings per share				
Basic	$0.46	$0.34	$0.63	$0.43
Diluted	$0.46	$0.34	$0.63	$0.43
Weighted average shares outstanding				
Basic	161,826,275	161,686,570	161,882,378	161,589,310
Diluted	162,259,283	162,308,099	162,245,399	162,265,155

See accompanying condensed notes to the unaudited consolidated financial statements.

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

	Number of Shares of Common Stock (Note 1)	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2014	161,355,490	$ 1,614	$ 906,159	$ 546,407	$ 1,454,180	$ 18,296	$ 1,472,476
Net income	—	—	—	205,461	205,461	1,720	207,181
Adjustment to capital contribution by Weyerhaeuser, net	—	—	(6,747)	—	(6,747)	—	(6,747)
Shares issued under share-based awards	458,260	4	1,612	—	1,616	—	1,616
Excess tax benefit of share-based awards, net	—	—	428	—	428	—	428
Minimum tax withholding paid on behalf of employees for restricted stock units	—	—	(2,190)	—	(2,190)	—	(2,190)
Stock-based compensation expense	—	—	11,935	—	11,935	—	11,935
Distributions to noncontrolling interests, net	—	—	—	—	—	(3,833)	(3,833)
Net effect of consolidations, de-consolidations and other transactions	—	—	—	—	—	5,597	5,597
Balance at December 31, 2015	161,813,750	1,618	911,197	751,868	1,664,683	21,780	1,686,463
Net income	—	—	—	102,476	102,476	427	102,903
Shares issued under share-based awards	304,522	3	15	—	18	—	18
Excess tax deficit of share-based awards, net	—	—	(182)	—	(182)	—	(182)
Minimum tax withholding paid on behalf of employees for restricted stock units	—	—	(1,359)	—	(1,359)	—	(1,359)
Stock-based compensation expense	—	—	6,363	—	6,363	—	6,363
Share repurchases	(1,253,021)	(12)	(14,686)	—	(14,698)	—	(14,698)
Distributions to noncontrolling interests, net	—	—	—	—	—	(2,111)	(2,111)
Net effect of consolidations, de-consolidations and other	—	—	—	—	—	(2,616)	(2,616)

transactions							
Balance at June 30, 2016	160,865,251	$1,609	$901,348	$854,344	$1,757,301	$ 17,480	$1,774,781

See accompanying condensed notes to the unaudited consolidated financial statements.

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

	Six Months Ended June 30, 2016	2015
Cash flows from operating activities:		
Net income	$102,903	$72,059
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,457	3,171
Equity in (income) loss of unconsolidated entities, net	(2,200)	81
Deferred income taxes, net	13,957	9,454
Amortization of stock-based compensation	6,363	5,542
Charges for impairments and lot option abandonments	289	1,538
Excess tax deficit of share-based awards	(182)	—
Changes in assets and liabilities:		
Real estate inventories	(323,305)	(255,416)
Receivables	9,199	(14,071)
Other assets	1,599	23,483
Accounts payable	14,978	(17,851)
Accrued expenses and other liabilities	(14,871)	(5,085)
Returns on investments in unconsolidated entities, net	3,617	—
Net cash used in operating activities	(186,196)	(177,095)
Cash flows from investing activities:		
Purchases of property and equipment	(1,123)	(613)
Investments in unconsolidated entities	(32)	(1,257)
Net cash used in investing activities	(1,155)	(1,870)
Cash flows from financing activities:		
Borrowings from debt	392,758	140,000
Repayment of debt	(276,826)	(2,895)
Debt issuance costs	(5,110)	(2,688)
Net repayments of debt held by variable interest entities	(2,297)	(875)
Contributions from noncontrolling interests	1,810	2,034
Distributions to noncontrolling interests	(3,921)	(4,155)
Proceeds from issuance of common stock under share-based awards	18	660
Excess tax benefit of share-based awards	—	352
Minimum tax withholding paid on behalf of employees for share-based awards	(1,359)	(2,190)
Share repurchases	(14,698)	—
Net cash provided by financing activities	90,375	130,243
Net decrease in cash and cash equivalents	(96,976)	(48,722)
Cash and cash equivalents - beginning of period	214,485	170,629
Cash and cash equivalents - end of period	$117,509	$121,907

See accompanying condensed notes to the unaudited consolidated financial statements.

TRI POINTE GROUP, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

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

Organization

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

Formation of TRI Pointe Group

On July 7, 2015, TRI Pointe Homes reorganized its corporate structure (the "Reorganization") whereby TRI Pointe Homes became a direct, wholly owned subsidiary of TRI Pointe Group. As a result of the Reorganization, each share of common stock, par value $0.01 per share, of TRI Pointe Homes ("Homes Common Stock") was cancelled and converted automatically into the right to receive one validly issued, fully paid and non-assessable share of common stock, par value $0.01 per share, of TRI Pointe Group ("Group Common Stock"), each share having the same designations, rights, powers and preferences, and the qualifications, limitations and restrictions thereof as the shares of Homes Common Stock being so converted. TRI Pointe Group, as the successor issuer to TRI Pointe Homes (pursuant to Rule 12g-3(a) under the Exchange Act), began making filings under the Securities Act and the Exchange Act on July 7, 2015.

In connection with the Reorganization, TRI Pointe Group (i) became a co-issuer of TRI Pointe Homes' 4.375% Senior Notes due 2019 (the "2019 Notes") and TRI Pointe Homes' 5.875% Senior Notes due 2024 (the "2024 Notes"); and (ii) replaced TRI Pointe Homes as the borrower under TRI Pointe Homes' existing unsecured revolving credit facility.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with GAAP, as contained within the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, as well as other entities in which the Company has a controlling interest and variable interest entities ("VIEs") in which the Company is the primary beneficiary. The noncontrolling interests as of June 30, 2016 and December 31, 2015 represent the outside owners' interests in the Company's consolidated entities and the net equity of the VIE owners. All significant intercompany accounts have been eliminated upon consolidation. 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.

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.

Reclassifications

Certain amounts in our consolidated financial statements for prior years have been reclassified to conform to the current period presentation.

Recently Issued Accounting Standards

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 supersedes the revenue-recognition requirements in ASC Topic 605, Revenue Recognition, most industry-specific guidance throughout the industry topics of the accounting standards codification, and some cost guidance related to construction-type and production-type contracts. On July 9, 2015, the FASB voted to defer the effective date of ASU No. 2014-09 by one year and it is now effective for public entities for the annual periods ending after December 15, 2017, and for annual and interim periods thereafter. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. Early adoption is permitted, but can be no earlier than the original public entity effective date of fiscal years, and the interim periods within those years, beginning after December 15, 2016. We are currently evaluating the approach for implementation and the potential impact of adopting this guidance on our consolidated financial statements.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15 ("ASU 2014-15"), Presentation of Financial Statements — Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, which requires management to evaluate, in connection with preparing financial statements for each annual and interim reporting period, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable) and provide related disclosures. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. We believe the adoption of this guidance will not have a material effect on our consolidated financial statements.

In February 2015, the FASB issued Accounting Standards Update No. 2015-02, ("ASU 2015-02"), Consolidation (Topic 810): Amendments to the Consolidation Analysis. ASU 2015-02 changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. ASU 2015-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. We adopted ASU 2015-02 on January 1, 2016 and the adoption had no impact on our current or prior year financial statements.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, ("ASU 2015-17"), Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, which requires deferred tax liabilities and assets be classified as noncurrent in a classified statement of position. ASU 2015-17 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The adoption of ASU 2015-17 is not expected to have a material effect on our consolidated financial statements.

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

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, ("ASU 2016-09"), Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. We are currently evaluating the impact that the adoption of ASU 2016-09 may have on our consolidated financial statements and disclosures.

2. Restructuring

Restructuring charges were comprised of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Employee-related charges	$12	$23	$25	$135
Lease termination charges	203	475	325	585
Total	$215	$498	$350	$720

Employee-related charges for the three and six months ended June 30, 2016 and 2015 relate to severance-related expenses for employees terminated during the period. Lease termination charges for the three and six months ended June 30, 2016, and 2015 relate to contract terminations and the adjustment of restructuring reserves related to the estimate of sublease income.

Changes in employee-related restructuring reserves were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Accrued employee-related charges, beginning of period	$74	$533	$220	$3,844
Current year charges	12	23	25	135
Payments	—	(447)	(159)	(3,870)
Accrued employee-related charges, end of period	$86	$109	$86	$109

Changes in lease termination related restructuring reserves were as follows (in thousands):

Three Months Ended June 30,		Six Months Ended June 30,	
2016	2015	2016	2015