TRI Pointe Group, Inc.
Form 10-Q
August 10, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015

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 x 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 x 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	¨	Accelerated filer	x
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 x

Registrant’s shares of common stock outstanding at August 1, 2015: 161,737,684

NOTE REGARDING THIS QUARTERLY REPORT

On July 7, 2015, TRI Pointe Homes, Inc., a Delaware corporation (“TRI Pointe Homes”), reorganized its corporate structure (the “Reorganization”) whereby TRI Pointe Homes became a direct, wholly owned subsidiary of TRI Pointe Group, Inc., a Delaware corporation (“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 Securities Exchange Act of 1934, as amended (the “Exchange Act”)), began making filings under the Securities Act of 1933, as amended, 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 and TRI Pointe Homes' 5.875% Senior Notes due 2024; and (ii) replaced TRI Pointe Homes as the borrower under TRI Pointe Homes' existing unsecured revolving credit facility.

The business, executive officers and directors of TRI Pointe Group, and the rights and limitations of the holders of Group Common Stock immediately following the Reorganization were identical to the business, executive officers and directors of TRI Pointe Homes, and the rights and limitations of holders of Homes Common Stock immediately prior to the Reorganization.

References to “TRI Pointe”, “ the Company”, “we”, “us”, or “our” in this Quarterly Report on Form 10-Q (including in 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
- For periods from and after July 7, 2015: TRI Pointe Group and its subsidiaries

TRI POINTE GROUP, INC.

FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TRI POINTE HOMES, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	June 30, 2015 (unaudited)	December 31, 2014
Assets		
Cash and cash equivalents	$121,907	$170,629
Receivables	34,189	20,118
Real estate inventories	2,535,753	2,280,183
Investments in unconsolidated entities	17,325	16,805
Goodwill and other intangible assets, net	162,296	162,563
Deferred tax assets	148,367	157,821
Other assets	87,350	105,405
Total assets	$3,107,187	$2,913,524
Liabilities		
Accounts payable	$51,009	$68,860
Accrued expenses and other liabilities	205,422	210,009
Unsecured revolving credit facility	399,392	260,000
Seller financed loans	12,390	14,677
Senior notes	888,267	887,502
Total liabilities	1,556,480	1,441,048
Commitments and contingencies (Note 15)	—	—
Equity		
Stockholders' Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized; no shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively	—	—
Common stock, $0.01 par value, 500,000,000 shares authorized; 161,737,684 and 161,355,490 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	1,617	1,614
Additional paid-in capital	910,520	906,159
Retained earnings	616,634	546,407

Total stockholders' equity	1,528,771	1,454,180
Noncontrolling interests	21,936	18,296
Total equity	1,550,707	1,472,476
Total liabilities and equity	$3,107,187	$2,913,524

See accompanying condensed notes to the unaudited consolidated financial statements.

TRI POINTE HOMES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Home sales	$427,238	$309,609	$801,503	$551,511
Land and lot sales	67,490	27,512	69,490	30,899
Other operations	789	5,442	1,782	8,285
	495,517	342,563	872,775	590,695
Expenses:				
Cost of home sales	341,742	242,709	641,648	433,977
Cost of land and lot sales	11,564	24,765	13,873	27,928
Other operations	592	567	1,154	2,199
Sales and marketing	25,634	23,798	48,920	44,703
General and administrative	28,299	18,184	56,478	36,189
Restructuring charges	498	520	720	2,178
Total expenses	408,329	310,543	762,793	547,174
Income from operations	87,188	32,020	109,982	43,521
Equity in loss of unconsolidated entities	(155)	(69)	(81)	(137)
Transaction expenses	—	(448)	—	(506)
Other income (loss), net	(31)	(1,476)	225	(741)
Income before taxes	87,002	30,027	110,126	42,137
Provision for income taxes	(30,240)	(5,802)	(38,067)	(10,331)
Net income	56,762	24,225	72,059	31,806
Less: net income attributable to noncontrolling interests	(1,832)	—	(1,832)	—
Net income available to common stockholders	$54,930	$24,225	$70,227	$31,806
Earnings per share				
Basic	$0.34	$0.19	$0.43	$0.25
Diluted	$0.34	$0.19	$0.43	$0.25
Weighted average shares outstanding				
Basic	161,686,570	129,700,000	161,589,310	129,700,000
Diluted	162,308,099	129,700,000	162,265,155	129,700,000

See accompanying condensed notes to the unaudited consolidated financial statements.

TRI POINTE HOMES, INC.

CONSOLIDATED STATEMENTS OF EQUITY

(unaudited)

(in thousands, except share amounts)

	Number of Common Shares (Note 1)	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2013	129,700,000	$ 1,297	$ 333,589	$ 462,210	$ 797,096	$ 28,421	$ 825,517
Net income	—	—	—	84,197	84,197	—	84,197
Capital contribution by Weyerhaeuser, net	—	—	63,355	—	63,355	—	63,355
Common shares issued in connection with the Merger (Note 2)	31,632,533	317	498,656	—	498,973	—	498,973
Shares issued under share-based awards	22,957	—	176	—	176	—	176
Excess tax benefit of share-based awards, net	—	—	1,757	—	1,757	—	1,757
Stock-based compensation expense	—	—	8,626	—	8,626	—	8,626
Distributions to noncontrolling interests, net	—	—	—	—	—	(17,248)	(17,248)
Net effect of consolidations, de-consolidations and other transactions	—	—	—	—	—	7,123	7,123
Balance at December 31, 2014	161,355,490	1,614	906,159	546,407	1,454,180	18,296	1,472,476
Net income	—	—	—	70,227	70,227	1,832	72,059
Shares issued under share-based awards	382,194	3	657	—	660	—	660
Excess tax benefit of share-based awards, net	—	—	352	—	352	—	352
Minimum tax withholding paid on behalf of	—	—	(2,190)	—	(2,190)	—	(2,190)

employees for restricted stock units							
Stock-based compensation expense	—	—	5,542	—	5,542	—	5,542
Distributions to noncontrolling interests, net	—	—	—	—	—	(2,121)	(2,121)
Net effect of consolidations, de-consolidations and other transactions	—	—	—	—	—	3,929	3,929
Balance at June 30, 2015	161,737,684	$ 1,617	$ 910,520	$ 616,634	$ 1,528,771	$ 21,936	$ 1,550,707

See accompanying condensed notes to the unaudited consolidated financial statements.

TRI POINTE HOMES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Six Months Ended June 30, 2015	2014
Cash flows from operating activities		
Net income	$72,059	$31,806
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,171	6,230
Equity in loss of unconsolidated entities, net	81	137
Deferred income taxes, net	9,454	120,822
Amortization of stock-based compensation	5,542	2,703
Charges for impairments and lot option abandonments	1,538	572
Changes in assets and liabilities:		
Real estate inventories	(255,416)	(88,352)
Receivables	(14,071)	23,578
Other assets	23,483	7,347
Accounts payable	(17,851)	34,570
Pension and other postretirement benefits	—	1,624
Accrued expenses and other liabilities	(5,085)	(34,888)
Other operating cash flows	—	(1,574)
Net cash (used in) provided by operating activities	(177,095)	104,575
Cash flows from investing activities:		
Purchases of property and equipment	(613)	(4,256)
Proceeds from sale of property and equipment	—	7
Investments in unconsolidated entities	(1,257)	236
Net cash used in investing activities	(1,870)	(4,013)
Cash flows from financing activities:		
Borrowings from debt	140,000	—
Repayment of debt	(2,895)	(25,508)
Debt issuance costs	(2,688)	—
Proceeds from issuance of senior notes	—	886,698
Change in book overdrafts	—	(5,534)
Distributions to Weyerhaeuser	—	(8,606)
Net repayments of debt held by variable interest entities	(875)	3,145
Contributions from noncontrolling interests	2,034	1,385
Distributions to noncontrolling interests	(4,155)	(9,334)
Proceeds from issuance of common stock under share-based awards	660	—
Excess tax benefits of share-based awards	352	1,572

Minimum tax withholding paid on behalf of employees for restricted stock units	(2,190)	—
Net cash provided by financing activities	130,243	843,818
Net (decrease) increase in cash and cash equivalents	(48,722)	944,380
Cash and cash equivalents - beginning of period	170,629	4,510
Cash and cash equivalents - end of period	$121,907	$948,890

See accompanying condensed notes to the unaudited consolidated financial statements.

TRI POINTE HOMES, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

Organization

The Company is engaged in the design, construction and sale of innovative single-family 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.

On July 7, 2015, TRI Pointe Homes, Inc., a Delaware corporation, (“TRI Pointe Homes”) reorganized its corporate structure (the “Reorganization”) whereby TRI Pointe Homes became a direct, wholly owned subsidiary of TRI Pointe Group, Inc., a Delaware corporation (“TRI Pointe Group”). See “Note Regarding This Quarterly Report” for information concerning the reorganization effected on July 7, 2015.

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”).

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries as described in “Reverse Acquisition” below, as well as other entities in which the Company has a controlling interest and variable interest entities (“VIE”) in which the Company is the primary beneficiary. The noncontrolling interests as of June 30, 2015 and December 31, 2014 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. Certain prior period amounts have been reclassified to conform to current period presentation. Subsequent events have been evaluated through the date the financial statements were issued. 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 Company has historically experienced, and expects to continue to experience, variability in quarterly results. The results of operations for the three or six months ended June 30, 2015 are not necessarily indicative of the results to be expected for the full year.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements 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, 2014.

Because the accompanying notes to consolidated financial statements are condensed, they should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10 K for the year ended December 31, 2014.

Reverse Acquisition

On July 7, 2014 (the "Closing Date"), TRI Pointe consummated the previously announced merger (the "Merger") of our wholly owned subsidiary, Topaz Acquisition, Inc. ("Merger Sub"), with and into Weyerhaeuser Real Estate Company ("WRECO"), with WRECO surviving the Merger and becoming our wholly owned subsidiary, as contemplated by the Transaction Agreement, dated as of November 3, 2013 (the "Transaction Agreement"), by and among us, Weyerhaeuser Company ("Weyerhaeuser"), WRECO and Merger Sub. The Merger is accounted for in accordance with ASC Topic 805, Business Combinations ("ASC 805"). For accounting purposes, the Merger is treated as a "reverse acquisition" and WRECO is considered the accounting acquirer. Accordingly, WRECO is reflected as the predecessor and acquirer and therefore the accompanying consolidated financial statements reflect the historical consolidated financial statements of WRECO for all periods presented and do not include the historical financial statements of TRI Pointe prior to the Closing Date. Subsequent to the Closing Date, the consolidated financial statements reflect the results of the combined company.

See Note 2, Merger with Weyerhaeuser Real Estate Company, for further information on the Merger. In the Merger, each issued and outstanding WRECO common share was converted into 1.297 shares of TRI Pointe common stock. The historical issued and outstanding WRECO common shares (100,000,000 common shares for all periods presented prior to the Merger) have been recast (as 129,700,000 common shares of the Company for all periods prior to the Merger) in all periods presented to reflect this conversion.

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.

Recently Issued Accounting Standards

In April 2014, the FASB issued amendments to Accounting Standards Update 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The update requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity’s financial results or a business activity classified as held for sale should be reported as discontinued operations. The amendments also expand the disclosure requirements for discontinued operations and add new disclosures for individually significant dispositions that do not qualify as discontinued operations. We adopted ASU 2014-08 on January 1, 2015 and the adoption had no impact on our current or prior year financial statements.

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 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. 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. Early adoption is permitted, including adoption in an interim period. We believe the adoption of ASU 2015-02 will not have a material effect on our consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, ("ASU 2015-03"), Interest - Imputation of Interest (Subtopic 835-30). ASU 2015-03 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Company plans to early adopt this guidance at the beginning of the fourth quarter of 2015. Had the Company early adopted ASU 2015-03, the impact for the period ended June 30, 2015 on our consolidated balance sheet would have been a balance sheet reclassification of deferred loan costs currently included in Other Assets resulting in a decrease to Other Assets of $24.7 million, a decrease to Senior Notes of $22.1 million and a decrease to unsecured revolving credit facility of $2.6 million. The impact for the period ended December 31, 2014, would have been a decrease to Other Assets of $23.7 million and a decrease to Senior Notes of $23.7 million.

Reclassifications

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

2. Merger with Weyerhaeuser Real Estate Company

In the Merger, TRI Pointe issued 129,700,000 shares of TRI Pointe common stock to the former holders of WRECO common shares, together with cash in lieu of any fractional shares. On the Closing Date, WRECO became a wholly owned subsidiary of TRI Pointe. Immediately following the consummation of the Merger, the ownership of TRI Pointe common stock on a fully diluted basis was as follows: (i) the WRECO common shares held by former Weyerhaeuser shareholders were converted into the right to receive, in the aggregate, 79.6% of the then outstanding TRI Pointe common stock, (ii) the TRI Pointe common stock outstanding immediately prior to the consummation of the Merger represented 19.4% of the then outstanding TRI Pointe common stock, and (iii) the outstanding equity awards of WRECO and TRI Pointe employees represented the remaining 1.0% of the then outstanding TRI Pointe common stock. On the Closing Date, the former direct parent entity of WRECO paid TRI Pointe $31.5 million in cash in accordance with the Transaction Agreement. Following the Merger, WRECO changed its name to TRI Pointe Holdings, Inc.

Assumption of Senior Notes

On the Closing Date, TRI Pointe assumed WRECO’s obligations as issuer of $450 million aggregate principal amount of its 4.375% Senior Notes due 2019 (the “2019 Notes”) and $450 million aggregate principal amount of its 5.875% Senior Notes due 2024 (the “2024 Notes” and together with the 2019 Notes, the “Senior Notes”). Additionally, WRECO and certain of its subsidiaries (collectively, the “Guarantors”) entered into supplemental indentures pursuant to which they guaranteed TRI Pointe’s obligations with respect to the Senior Notes. The Guarantors also entered into a joinder agreement to the Purchase Agreement, dated as of June 4, 2014, among WRECO, TRI Pointe, and the initial purchasers of the Senior Notes (collectively, the “Initial Purchasers”), pursuant to which the Guarantors became parties to the Purchase Agreement. Additionally, TRI Pointe and the Guarantors entered into joinder agreements to the Registration Rights Agreements, dated as of June 13, 2014, among WRECO and the Initial Purchasers with respect to the Senior Notes, pursuant to which TRI Pointe and the Guarantors were joined as parties to the Registration Rights Agreements.

The net proceeds of $861.3 million from the offering of the Senior Notes were deposited into two separate escrow accounts following the closing of the offering on June 13, 2014. Upon release of the escrowed funds on the Closing Date and prior to the consummation of the Merger, WRECO paid $743.7 million in cash to its former direct parent, which cash was retained by Weyerhaeuser and its subsidiaries (other than WRECO and its subsidiaries). The payment consisted of the $739.0 million Payment Amount (as defined in the Transaction Agreement) as well as $4.7 million in payment of all unpaid interest on the debt payable to Weyerhaeuser that accrued from November 3, 2013 to the Closing Date. The remaining $117.6 million of proceeds was retained by TRI Pointe.

Fair Value of Assets Acquired and Liabilities Assumed

The following table summarizes the calculation of the fair value of the total consideration transferred and the provisional amounts recognized as of the Closing Date (in thousands, except shares and closing stock price):

Calculation of consideration transferred	
TRI Pointe shares outstanding	31,632,533
TRI Pointe closing stock price on July 7, 2014	$15.85
Consideration attributable to common stock	$501,376
Consideration attributable to TRI Pointe share-based equity awards	1,072
Total consideration transferred	$502,448
Assets acquired and liabilities assumed	
Cash and cash equivalents	$53,800
Accounts receivable	654
Real estate inventories	539,677
Intangible asset	17,300
Goodwill	139,304
Other assets	28,060
Total assets acquired	778,795
Accounts payable	26,105
Accrued expenses and other liabilities	23,114
Notes payable and other borrowings	227,128
Total liabilities assumed	276,347
Total net assets acquired	$502,448

Cash and cash equivalents, accounts receivable, other assets, accounts payable, accrued payroll liabilities, and accrued expenses and other liabilities were generally stated at historical carrying values given the short-term nature of these assets and liabilities. Notes payable and other borrowings are stated at carrying value due to the limited amount of time since the notes payable and other borrowings were entered into prior to the Closing Date.

The Company determined the fair value of real estate inventories on a community-by-community basis primarily using a combination of market-comparable land transactions, land residual analysis and discounted cash flow models. The estimated fair value is significantly impacted by estimates related to expected average selling prices, sales pace, cancellation rates and construction and overhead costs. Such estimates must be made for each individual community and may vary significantly between communities.

The fair value of the acquired intangible asset was determined based on a valuation performed by an independent valuation specialist. The $17.3 million intangible asset is related to the TRI Pointe Homes trade name which is deemed to have an indefinite useful life.

Goodwill is primarily attributed to expected synergies from combining WRECO’s and TRI Pointe’s existing businesses, including, but not limited to, expected cost synergies from overhead savings resulting from streamlining certain redundant corporate functions, improved operating efficiencies, including provision of certain corporate level administrative and support functions at a lower cost than was historically allocated to WRECO for such services by its former direct parent, and growth of ancillary operations in various markets as permitted under applicable law, including a mortgage business, a title company and other ancillary operations. The Company also anticipates opportunities for growth through expanded geographic and customer segment diversity and the ability to leverage additional brands. The acquired goodwill is not deductible for income tax purposes.

The Company completed its business combination accounting during the first quarter of 2015.

Supplemental Pro Forma Information (Unaudited)

The following represents unaudited pro forma operating results as if the acquisition had been completed as of January 1, 2014 (in thousands, except per share amounts):

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
Total revenues	$429,899	$750,843
Net income	$32,200	$44,514
Earnings per share – basic	$0.20	$0.28
Earnings per share – diluted	$0.20	$0.27

The unaudited pro forma operating results have been determined after adjusting the operating results of TRI Pointe to reflect the purchase accounting and other acquisition adjustments including interest expense associated with the debt used to fund a portion of the Merger. The unaudited pro forma results do not reflect any cost savings, operating synergies or other enhancements that we may achieve as a result of the Merger or the costs necessary to integrate the operations to achieve these cost savings and synergies. Accordingly, the unaudited pro forma amounts are for comparative purposes only and may not necessarily reflect the results of operations had the Merger been completed at the beginning of the period or be indicative of the results we will achieve in the future.

3. Restructuring

In connection with the Merger, the Company initiated a restructuring plan to reduce duplicate corporate and divisional overhead costs and expenses. In addition, WRECO previously recognized restructuring expenses related to general cost reduction initiatives. Restructuring costs were comprised of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Employee-related costs	$23	$60	$135	$1,307
Lease termination costs	475	460	585	871
Total	$498	$520	$720	$2,178

Lease termination costs for the three and six months ended June 30, 2015, and 2014, respectively, relate to contract terminations as a result of general cost reduction initiatives.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Accrued employee-related costs, beginning of period	$533	$—	$3,844	$4,336
Current year charges	23	60	135	1,307
Payments	(447)	(60)	(3,870)	(5,643)
Accrued employee-related costs, end of period	$109	$—	$109	$—

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Accrued lease termination costs, beginning of period	$926	$2,758	$1,394	$3,506
Current year charges	475	460	585	871
Payments	(757)	(764)	(1,335)	(1,923)
Accrued lease termination costs, end of period	$644	$2,454	$644	$2,454

Employee and lease termination restructuring reserves are included in accrued expenses and other liabilities on our consolidated balance sheets.

4. Segment Information

Our operations consist of six homebuilding companies that acquire and develop land and construct and sell single-family 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 on our aggregation analysis, we have not exercised any aggregation of our operating segments, which are represented by the following six reportable segments: Maracay, consisting of operations in Arizona; Pardee, consisting of operations in California and Nevada; Quadrant, consisting of operations in Washington; Trendmaker, consisting of operations in Texas; TRI Pointe, consisting of operations in California and Colorado; and Winchester, consisting of operations in Maryland and Virginia.

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 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 as our consolidated financial statements described in Note 1. 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 taxes for each of our reportable segments were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Total revenues				
Maracay	$33,574	$35,045	$66,051	$70,275
Pardee	166,064	145,247	251,723	217,709
Quadrant	38,896	31,785	84,525	64,039
Trendmaker	65,982	67,756	122,191	129,156
TRI Pointe	130,735	—	237,592	—
Winchester	60,266	62,730	110,693	109,516
Total	$495,517	$342,563	$872,775	$590,695
Income (loss) before taxes				
Maracay	$1,068	$2,387	$2,108	$6,010
Pardee	67,734	18,656	81,292	25,793
Quadrant	766	5,459	2,347	6,240
Trendmaker	6,040	7,825	10,400	14,202
TRI Pointe	14,564	—	25,695	—
Winchester	5,957	6,868	6,338	11,037
Corporate	(9,127)	(11,168)	(18,054)	(21,145)
Total	$87,002	$30,027	$110,126	$42,137

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

	June 30, 2015	December 31, 2014
Real estate inventories		
Maracay	$189,036	$153,577
Pardee	999,972	924,362
Quadrant	170,506	153,493
Trendmaker	196,015	176,696
TRI Pointe	696,811	613,666
Winchester	283,413	258,389
Total	$2,535,753	$2,280,183
Total assets		
Maracay	$201,628	$170,932
Pardee	1,067,332	1,000,489
Quadrant	181,502	167,796
Trendmaker	218,531	195,829
TRI Pointe	867,043	781,301
Winchester	311,004	281,547
Corporate	260,147	315,630
Total	$3,107,187	$2,913,524

5. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Numerator:				
Net income available to common stockholders	$54,930	$24,225	$70,227	$31,806
Denominator:				
Basic weighted-average shares outstanding	161,686,570	129,700,000	161,589,310	129,700,000
Effect of dilutive shares:				
Stock options and	621,529	—	675,845	—

unvested restricted stock units				
Diluted weighted-average shares outstanding	162,308,099	129,700,000	162,265,155	129,700,000
Earnings per share				
Basic	$0.34	$0.19	$0.43	$0.25
Diluted	$0.34	$0.19	$0.43	$0.25
Antidilutive unvested restricted stock units and stock options not included in diluted earnings per share	2,343,905	—	2,563,137	—

6. Receivables
Receivables consisted of the following (in thousands):

	June 30, 2015	December 31, 2014
Escrow proceeds and other accounts receivable, net	$23,363	$ 9,771
Warranty insurance receivable (Note 15)	10,526	10,047
Notes and contracts receivable	300	300
Total receivables	$34,189	$ 20,118

7. Real Estate Inventories
Real estate inventories consisted of the following (in thousands):

	June 30, 2015	December 31, 2014
Real estate inventories owned:		
Homes completed or under construction	$726,553	$461,712
Land under development	1,349,956	1,391,303
Land held for future development	256,865	245,673
Model homes	128,839	103,270
Total real estate inventories owned	2,462,213	2,201,958
Real estate inventories not owned:		
Land purchase and land option deposits	36,976	44,155
Consolidated inventory held by VIEs	36,564	34,070
Total real estate inventories not owned	73,540	78,225
Total real estate inventories	$2,535,753	$2,280,183

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

Real estate inventories not owned represents deposits related to land purchase and land option agreements as well as consolidated inventory held by variable interest entities. For further details, see Note 9, Variable Interest Entities.

During the quarter ended June 30, 2015 the Company sold a 15.72 acre employment center located in the Pacific Highlands Ranch community in the San Diego, California division of our Pardee Homes reporting segment. The land sold under this sale was classified as land under development and represented $53.0 million of land and lot sales revenue in the consolidated statement of operations for the quarter.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest incurred	$15,149	$6,551	$30,325	$10,589
Interest capitalized	(15,149)	(4,339)	(30,325)	(8,148)
Interest expensed	$—	$2,212	$—	$2,441
Capitalized interest in beginning inventory	$132,872	$137,979	$124,461	$138,233
Interest capitalized as a cost of inventory	15,149	4,339	30,325	8,148
Interest previously capitalized as a cost of inventory, included in cost of sales	(7,915)	(28,553)	(14,680)	(32,616)
Capitalized interest in ending inventory	$140,106	$113,765	$140,106	$113,765

Interest is capitalized to real estate inventory during development and other qualifying activities. Interest that is capitalized to real estate inventory is included in cost of home sales as related units are delivered. Interest that is expensed as incurred is included in other income (expense).

Real estate inventory impairments and land and lot option abandonments

Real estate inventory impairments and land option abandonments consisted of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Real estate inventory impairments	$878	$42	$1,044	$52
Land and lot option abandonments and pre-acquisition costs	300	62	494	520
Total	$1,178	$104	$1,538	$572

Impairments of homebuilding assets and related charges relate primarily to projects or communities held for development. Within a community that is held for development, 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 above. Charges for inventory impairments are expensed to cost of sales.

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. Charges for such forfeitures are expensed to cost of sales.

8. Investments in Unconsolidated Entities

As of June 30, 2015, we held equity investments in six active real estate partnerships or limited liability companies. Our participation in these entities may be as a developer, a builder, or an investment partner. Our ownership percentage varies from 7% to 55%, depending on the investment, with no controlling interest held in any of these investments.

Investments Held

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

	June 30, 2015	December 31, 2014
Limited partnership and limited liability company interests	$13,961	$ 13,710
General partnership interests	3,364	3,095
Total	$17,325	$ 16,805

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 investment in unconsolidated entities or on our consolidated statement of operations as equity in loss of unconsolidated entities.

Assets and liabilities of unconsolidated entities (in thousands):

	June 30, 2015	December 31, 2014
Assets		
Cash	$14,374	$17,154
Receivables	9,550	9,550
Real estate inventories	89,801	95,500
Other assets	814	620
Total assets	$114,539	$122,824
Liabilities and equity		
Accounts payable and other liabilities	$11,706	$10,914
Company's equity	17,325	16,805
Outside interests' equity	85,508	95,105
Total liabilities and equity	$114,539	$122,824

Results of operations from unconsolidated entities (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net sales	$1,377	$336	$1,453	$407
Other operating expense	(1,805)	$(1,146)	(2,541)	(2,157)
Other income	5	$12	7	14
Net loss	$(423)	$(798)	$(1,081)	$(1,736)
Company's equity in loss of unconsolidated entities	$(155)	$(69)	$(81)	$(137)

9. Variable Interest Entities

In the ordinary course of business, we enter into land option agreements in order to procure land and residential lots for future development and the construction of homes. The use of such land 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 option agreements, we generally provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices. Such deposits are recorded as land purchase and land option deposits under real estate inventories not owned in the accompanying consolidated balance sheets.

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

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

	June 30, 2015			December 31, 2014		
	Deposits	Remaining Purchase Price	Consolidated Inventory Held by VIEs	Deposits	Remaining Purchase Price	Consolidated Inventory Held by VIEs
Consolidated VIEs	$7,359	$36,038	$ 36,564	$8,071	$43,432	$ 34,070
Unconsolidated VIEs	7,760	72,298	N/A	13,309	129,637	N/A
Other land option agreements	29,216	283,969	N/A	30,846	284,819	N/A
Total	$44,335	$392,305	$ 36,564	$52,226	$457,888	$ 34,070

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 option contracts consisted of capitalized pre-acquisition costs of $4.9 million and $5.3 million as of June 30, 2015 and December 31, 2014, respectively. These pre-acquisition costs were included in real estate inventories as land under development on our consolidated balance sheets.

10. Goodwill and Other Intangible Assets

In connection with the Merger, $139.3 million of goodwill has been recorded as of June 30, 2015. For further details on the goodwill, see Note 2, Merger with Weyerhaeuser Real Estate Company.

We have two intangible assets recorded as of June 30, 2015, including an existing trade name from the acquisition of Maracay in 2006 which has a 20 year useful life and a new trade name, TRI Pointe Homes, resulting from the Merger which has an indefinite useful life. For further details on the TRI Pointe Homes trade name see Note 2, Merger with Weyerhaeuser Real Estate Company.

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

	June 30, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Goodwill	$139,303	$ —	$139,303	$139,304	$ —	$139,304
Trade names	27,979	(4,986)	22,993	27,979	(4,720)	23,259
Total	$167,282	$ (4,986)	$162,296	$167,283	$ (4,720)	$162,563

The remaining useful life of our amortizing intangible asset related to the Maracay trade name was 10.7 and 11.2 years as of June 30, 2015 and December 31, 2014, respectively. Amortization expense related to this intangible asset was $133,000 for each of the three month periods ended June 30, 2015 and 2014, respectively and was $266,000 for each of the six month periods ended June 30, 2015 and 2014, respectively. Amortization of this intangible asset 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.

Expected amortization of our intangible asset related to Maracay for the remainder of 2015, the next four years and thereafter is (in thousands):

Remainder of 2015	$268
2016	534
2017	534
2018	534
2019	534
Thereafter	3,289
Total	$5,693

11. Other Assets

Other assets consisted of the following (in thousands):

	June 30, 2015	December 31, 2014
Prepaid expenses	$22,758	$29,111
Refundable fees and other deposits	16,557	15,581
Development rights, held for future use or sale	6,447	7,409
Deferred loan costs	24,669	23,686
Operating properties and equipment, net	10,511	11,719
Income tax receivable	—	10,713
Other	6,408	7,186
Total	$87,350	$105,405

12. Accrued Expenses and Other Liabilities

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

	June 30, 2015	December 31, 2014
Accrued payroll and related costs	$16,437	$24,717
Warranty reserves (Note 15)	35,375	33,270
Estimated cost for completion of real estate inventories	54,771	54,437
Customer deposits	20,101	14,229
Debt (nonrecourse) held by VIEs (Note 9)	8,337	9,512
Income tax liability to Weyerhaeuser (Note 18)	15,894	15,659
Accrued income taxes payable	3,883	—
Liability for uncertain tax positions (Note 17)	16,095	13,797
Accrued interest	2,632	3,059
Accrued insurance expense	4,199	9,180
Other	27,698	32,149
Total	$205,422	$210,009

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

Senior Notes

Senior Notes consisted of the following (in thousands):

	June 30, 2015	December 31, 2014
4.375% Senior Notes due June 15, 2019, net of discount	$445,955	$445,501
5.875% Senior Notes due June 15, 2024, net of discount	442,312	442,001
Total	$888,267	$887,502

As discussed in Note 2, Merger with Weyerhaeuser Real Estate Company, on the Closing Date, TRI Pointe assumed WRECO’s obligations as issuer of the Senior Notes. The 2019 Notes were issued at 98.89% of their aggregate principal amount and the 2024 Notes were issued at 98.15% of their aggregate principal amount. The net proceeds of $861.3 million, after debt issuance costs and discounts, from the offering were deposited into two separate escrow accounts following the closing of the offering on June 13, 2014.

The 2019 Notes and the 2024 Notes mature on June 15, 2019 and June 15, 2024, respectively. Interest is payable semiannually in arrears on June 15 and December 15. As of June 30, 2015, no principal has been paid on the Senior Notes, and there was $22.1 million of capitalized debt financing costs, included in other assets 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 $1.9 million as of June 30, 2015.

Unsecured Revolving Credit Facility

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

	June 30, 2015	December 31, 2014
Unsecured revolving credit facility	$399,392	$260,000

In May 2015, the Company amended its unsecured credit revolving credit facility (the “Credit Facility”) from $425 million to $550 million. The Credit Facility matures on July 1, 2018, and contains a sublimit of $75 million for letters of credit. The Company may borrow under the Credit Facility in the ordinary course of business to fund its operations, including its land development and homebuilding activities. Borrowings under the Credit Facility will be governed by, among other things, a borrowing base. Interest rates on borrowings under the Credit Facility will be based on either a daily Eurocurrency base rate or a Eurocurrency rate, in either case, plus a spread ranging from 1.45% to 2.20%, depending on the Company’s leverage ratio. As of June 30, 2015, the outstanding balance under the Credit Facility was $399.4 million with an interest rate of 2.14% per annum and $141.1 million of availability after considering the borrowing base provisions and outstanding letters of credit. As of June 30, 2015 there was $2.6 million of capitalized debt financing costs, included in other assets on our consolidated balance sheet, related to the Credit Facility that will amortize over the life of the Credit Facility, maturing on July 1, 2018. Accrued interest related to the Credit Facility was $685,000 as of June 30, 2015.

At June 30, 2015 we had outstanding letters of credit of $9.5 million. These letters of credit were issued to secure various financial obligations. We believe it is not probable that any outstanding letters of credit will be drawn upon.

Seller Financed Loans

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

	June 30, 2015	December 31, 2014
Seller financed loans	$12,390	$ 14,677

As of June 30, 2015, the Company had $12.4 million outstanding related to seller financed loans to acquire lots for the construction of homes. Principal and interest payments on these loans are due at various maturity dates, including at the time individual homes associated with the acquired land are delivered. As of June 30, 2015, the seller financed loans accrue interest at a weighted average rate of 6.97% per annum, with interest calculated on a daily basis. Any remaining unpaid balance on these loans is due in May 2016. Accrued interest on these loans were $25,000 as of June 30, 2015.

Interest Incurred

During the three month periods ended June 30, 2015 and 2014, the Company incurred interest of $15.1 million and $6.6 million, respectively, related to all notes payable, Senior Notes and debt payable to Weyerhaeuser outstanding during the period. Of the interest incurred, $15.1 million and $4.3 million was capitalized to inventory for the six-month period ended June 30, 2015 and 2014, respectively. Included in interest incurred was amortization of deferred financing and Senior Note discount costs of $1.3 million for the three month period ended June 30, 2015 with no deferred financing cost in the same prior year period. During the six month periods ended June 30, 2015 and 2014, the Company incurred interest of $30.3 million and $10.6 million, respectively, related to all notes payable, Senior Notes and debt payable to Weyerhaeuser outstanding during the period. Of the interest incurred, $30.3 million and $8.1 million was capitalized to inventory for the period ended June 30, 2015 and 2014, respectively. Included in interest incurred was amortization of deferred financing and Senior Note discount costs of $2.5 million for the six month period ended June 30, 2015 with no deferred financing cost in the same prior year period. Accrued interest related to all outstanding debt at June 30, 2015 and December 31, 2014 was $2.6 million and $3.1 million, respectively.

Covenant Requirements

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

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

The Company was in compliance with all applicable financial covenants as of June 30, 2015 and December 31, 2014.

14. Fair Value Disclosures

Fair Value Measurements

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

- Level 1—Quoted prices for identical instruments in active markets
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are inactive; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets at measurement date
- Level 3—Valuations derived from techniques where one or more significant inputs or significant value drivers are unobservable in active markets at measurement date

Fair Value of Financial Instruments

A summary of assets and liabilities at June 30, 2015 and December 31, 2014, related to our financial instruments, measured at fair value on a recurring basis, is set forth below (in thousands):

		June 30, 2015		December 31, 2014	
	Hierarchy	Book Value	Fair Value	Book Value	Fair Value
Receivables [1]	Level 3	$34,189	$34,189	$20,118	$20,118
Senior Notes [2]	Level 2	888,267	879,750	887,502	896,625
Unsecured revolving credit facility [3]	Level 3	399,392	399,392	260,000	260,000
Seller financed loans [4]	Level 3	12,390	12,390	14,677	14,677

At June 30, 2015 and December 31, 2014, the carrying value of cash and cash equivalents approximated fair value.

(1) The estimated fair value of our receivables was based on the discounted value of the expected future cash flows using current rates for similar receivables. The book value of our receivables equaled the fair value as of June 30, 2015 and December 31, 2014 due to the short-term nature of the remaining receivables.
(2) The estimated fair value of our Senior Notes at June 30, 2015 and December 31, 2014 is based on quoted market prices.
(3) We believe that the carrying value of our Credit Facility approximates fair value based on the short term nature of the current market rate amended on May 18, 2015.
(4) We believe that the carrying value of our Seller financed loans approximates fair value based on a two year treasury curve analysis.

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 indicate the carrying value is not recoverable. The following table presents impairment charges and the remaining net fair value for nonfinancial assets that were measured during the periods presented (in thousands):

		Six Months Ended June 30, 2015		Year Ended December 31, 2014	
	Hierarchy	Impairment Charge	Fair Value Net of Impairment	Impairment Charge	Fair Value Net of Impairment
Real estate inventories	Level 3	$1,044	$ 15,348	$931	$ 20,329

15. 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 and environmental protection. 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.

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 construction-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. Included in our warranty reserve accrual are allowances to cover our estimated costs of self-insured retentions and deductible amounts under these policies and estimated costs for claims that may not be covered by applicable insurance or indemnities. Estimation of these accruals include consideration of our claims history, including current claims and estimates of claims incurred but not yet reported. In addition, we record expected recoveries from insurance carriers when proceeds are probable and estimable. Outstanding warranty insurance receivables were $10.5 million and $10.0 million as of June 30, 2015 and December 31, 2014, respectively. Warranty insurance receivables are recorded in receivables on the accompanying consolidated balance sheet.

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.

Warranty reserves consisted of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Warranty reserves, beginning of period	$33,965	$24,378	$33,270	$24,450
Warranty reserves accrued	3,354	2,153	6,226	3,764
Adjustments to pre-existing reserves	999	232	1,300	1,018
Warranty expenditures	(2,943)	(2,439)	(5,421)	(4,908)
Warranty reserves, end of period	$35,375	$24,324	$35,375	$24,324

Performance Bonds

We obtain surety bonds in the normal course of business to ensure completion of certain infrastructure improvements of our projects. As of June 30, 2015 and December 31, 2014, the Company had outstanding surety bonds totaling $407.9 million and $355.2 million, respectively. The beneficiaries of the bonds are various municipalities.

16. 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. The 2013 Incentive Plan provides for the grant of equity-based awards, including options to purchase shares of common stock, stock appreciation rights, common stock, restricted stock, restricted stock units and performance awards. The 2013 Incentive Plan will automatically expire on the tenth anniversary of its effective date. Our board of directors may terminate or amend the 2013 Incentive Plan at any time, subject to any requirement of stockholder approval required by applicable law, rule or regulation.

As amended, the number of shares of our common stock that may be issued under the 2013 Incentive Plan is 11,727,833 shares. To the extent that shares of our common stock subject to an outstanding option, stock appreciation right, stock award or performance award granted under the 2013 Incentive Plan are not issued or delivered by reason of the expiration, termination, cancellation or forfeiture of such award or the settlement of such award in cash, then such shares of our common stock generally shall again be available under the 2013 Incentive Plan. As of June 30, 2015 there were 9,525,870 shares available for future grant under the 2013 Incentive Plan.

Converted Awards

Under the Transaction Agreement, each outstanding Weyerhaeuser equity award held by an employee of WRECO was converted into a similar equity award with TRI Pointe, based on the final exchange ratio of 2.1107 (the "Exchange Ratio"), rounded down to the nearest whole number of shares of common stock. The Company filed a registration statement on Form S-8 (Registration No. 333-197461) on July 16, 2014 to register 4,105,953 shares related to these equity awards. The converted awards have the same terms and conditions as the Weyerhaeuser equity awards except that all performance share units were surrendered in exchange for time-vesting restricted stock units without any performance-based vesting conditions or requirements and the exercise price of each converted stock option is equal to the original exercise price divided by the Exchange Ratio. There will be no future grants under the WRECO equity incentive plans. Refer to Note 2, Merger with Weyerhaeuser Real Estate Company, for additional information on the Merger.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Total stock-based compensation	$3,161	$1,410	$5,542	$2,703

As of June 30, 2015, total unrecognized stock-based compensation related to all stock-based awards was $22.4 million and the weighted average term over which the expense was expected to be recognized was 1.94 years.

Summary of Stock Option Activity

The following table presents a summary of stock option awards for the six months ended June 30, 2015:

	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2014	3,467,086	$ 13.05	6.0	$ 7,642
Granted	—	—	—	—
Exercised	(91,880)	10.63		
Forfeited	(11,303)	8.39		
Options outstanding at June 30, 2015	3,363,903	13.12	5.6	7,349
Options exercisable at June 30, 2015	2,872,860	12.41	4.9	8,309

Summary of Restricted Stock Unit Activity

The following table presents a summary of restricted stock units (“RSUs”) for the six months ended June 30, 2015:

	Restricted Stock Units	Weighted Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value (in thousands)
Nonvested RSUs at December 31, 2014	900,547	$ 15.62	$ 13,461
Granted	1,511,491	11.46	17,315
Vested	(453,685)	13.85	
Forfeited	(10,193)	13.58	
Nonvested RSUs at June 30, 2015	1,948,160	12.20	29,807

On March 5, 2015, the Company granted an aggregate of 440,800 restricted stock units to employees and officers. The restricted stock units granted vest annually on the anniversary of the grant date over a three year period. The fair value of each restricted stock award granted on March 5, 2015 was measured using a price of $14.97 per share, which was the closing stock price on the date of grant. Each award will be expensed on a straight-line basis over the vesting period.

On March 9, 2015, the Company granted 411,804, 384,351, and 274,536 performance-based RSUs to the Company’s Chief Executive Officer, President, and Chief Financial Officer, respectively, with 1/3 of the performance-based RSU amounts being allocated to each of the three following separate performance goals: total shareholder return (compared to a group of similarly sized homebuilders); earnings per share; and stock price. The performance-based restricted stock units granted will vest in each case, if at all, based on the percentage of attainment of the applicable performance goal. The performance periods for the performance-based RSUs with vesting based on total shareholder return and earnings per share are January 1, 2015 to December 31, 2017. The performance period for the performance-based RSUs with vesting based on stock price is January 1, 2016 to December 31, 2017. The fair value of the performance-based RSUs related to the total shareholder return and stock price performance goals was determined to be $7.55 and $7.90 per share, respectively, 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 $14.57 per share, which was the closing stock price on the date of grant. Each grant will be expensed on a straight-line basis over the expected vesting period.

As restricted stock units vest, a portion of the shares awarded is generally withheld to cover employee taxes. As a result, the number of restricted stock units vested and the number of shares of TRI Pointe common stock issued will differ.

17. Income Taxes

The Company accounts 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 $148.4 million and $157.8 million as of June 30, 2015 and December 31, 2014, respectively. We had a valuation allowance related to those net deferred tax assets of $4.6 million and $6.2 million as of June 30, 2015 and December 31, 2014, respectively. 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.

Our provision for income taxes totaled $30.2 million and $5.8 million for the three months ended June 30, 2015 and 2014, respectively. Our provision for income taxes totaled $38.1 million and $10.3 million for the six months ended June 30, 2015 and 2014, respectively. The Company classifies any interest and penalties related to income taxes assessed by jurisdiction as part of income tax expense. The Company had $16.1 million and $13.8 million of liabilities for uncertain tax positions recorded as of June 30, 2015 and December 31, 2014, respectively. The Company has not been assessed interest or penalties by any major tax jurisdictions related to prior years.

18. Related Party Transactions

Prior to the Merger, WRECO was a wholly owned subsidiary of Weyerhaeuser. Weyerhaeuser provided certain services including payroll processing and related employee benefits, other corporate services such as corporate governance, cash management and other treasury services, administrative services such as government relations, tax, internal audit, legal, accounting, human resources and equity-based compensation plan administration, lease of office space, aviation services and insurance coverage. WRECO was allocated a portion of Weyerhaeuser corporate general and administrative costs on either a proportional cost or usage basis.

Weyerhaeuser-allocated corporate general and administrative expenses were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Weyerhaeuser-allocated costs	$—	$5,188	$—	$10,735

These expenses are not indicative of the actual level of expense WRECO would have incurred if it had operated as an independent company or of expenses expected to be incurred in the future after the Closing Date.

TRI Pointe has certain liabilities with Weyerhaeuser related to a tax sharing agreement. As of June 30, 2015 and December 31, 2014, we had an income tax liability to Weyerhaeuser of $15.9 million and $15.7 million, respectively, which is recorded in accrued expenses and other liabilities on the accompanying balance sheet.

In January of 2015, TRI Pointe acquired 46 lots located in Castle Rock, Colorado, for a purchase price of approximately $2.8 million from an entity managed by an affiliate of the Starwood Capital Group. This acquisition was approved by TRI Pointe independent directors.

19. Supplemental Disclosure to Consolidated Statements of Cash Flow

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

	Six Months Ended June 30, 2015	2014
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	$—	$97
Income taxes	$11,354	$14,962
Supplemental disclosures of noncash activities:		
Amortization of senior note discount	$765	$—
Effect of net consolidation and de-consolidation of variable interest entities:		
Increase in consolidated real estate inventory not owned	$3,629	$28,208
Increase in accrued expenses and other liabilities	$300	$—
Increase in noncontrolling interests	$(3,929)	$(28,208)

20. Supplemental Guarantor Information

On the Closing Date, the Company assumed WRECO's obligations as issuer of the Senior Notes. Additionally, all of TRI Pointe's wholly owned subsidiaries that are guarantors of the Company's unsecured $550 million revolving credit facility, including WRECO and certain of its wholly owned subsidiaries, entered into supplemental indentures pursuant to which they jointly and severally guaranteed TRI Pointe's obligations with respect to the Senior Notes.

Presented below are the condensed consolidating balance sheets at June 30, 2015 and December 31, 2014, condensed consolidating statements of operations for the three and six months ended June 30, 2015 and cash flows for the six month period ended June 30, 2015. TRI Pointe's non-guarantor subsidiaries represent less than 3% on an individual and aggregate basis of consolidated total assets, total revenues, income from operations before taxes and cash flow from operating activities. Therefore, the non-guarantor subsidiaries' information is not separately presented in the tables below.

As discussed in Note 1, the Merger was treated as a "reverse acquisition" with WRECO being considered the accounting acquirer. Accordingly, the financial statements reflect the historical results of WRECO for all periods and do not include the historical financial information of TRI Pointe prior to the Closing Date. Subsequent to the Closing Date, the consolidated financial statements reflect the results of the combined company. As a result, we have not included condensed consolidating statements of operations for the three or six months ended June 30, 2014 or cash flows for the six months ended June 30, 2014 because those results are of WRECO and are already included on the face of the consolidated financial statements. In addition, there is no financial information for TRI Pointe, issuer of the Senior Notes, in the periods prior to the Closing Date.

Condensed Consolidating Balance Sheet (in thousands):

	June 30, 2015			
	TRI Pointe Homes, Inc. (unaudited)	Guarantor Subsidiaries (unaudited)	Consolidating Adjustments (unaudited)	Consolidated TRI Pointe Homes, Inc. (unaudited)
Assets				
Cash and cash equivalents	$67,329	$54,578	$—	$121,907
Receivables	12,721	21,468	—	34,189
Intercompany receivables	851,310	—	(851,310)	—
Real estate inventories	696,810	1,838,943	—	2,535,753
Investments in unconsolidated entities	—	17,325		17,325
Goodwill and other intangible assets, net	162,296	—	—	162,296
Investments in subsidiaries	1,007,550	—	(1,007,550)	—
Deferred tax assets	23,630	124,737	—	148,367
Other assets	38,948	48,402	—	87,350
Total Assets	$2,860,594	$2,105,453	$(1,858,860)	$3,107,187
Liabilities				
Accounts payable	$4,449	$46,560	$—	$51,009
Intercompany payables	—	851,310	(851,310)	—
Accrued expenses and other liabilities	27,725	177,697	—	205,422
Unsecured revolving credit facility	399,392	—	—	399,392

Seller financed loans	11,990	400	—	12,390
Senior notes	888,267	—	—	888,267
Total Liabilities	1,331,823	1,075,967	(851,310)	1,556,480
Equity				
Total stockholders' equity	1,528,771	1,007,550	(1,007,550)	1,528,771
Noncontrolling interests	—	21,936	—	21,936
Total Equity	1,528,771	1,029,486	(1,007,550)	1,550,707
Total Liabilities and Equity	$2,860,594	$2,105,453	$(1,858,860)	$3,107,187

20. Supplemental Guarantor Information (continued)
Condensed Consolidating Balance Sheet (in thousands):

	December 31, 2014			
	TRI Pointe Homes, Inc. (unaudited)	Guarantor Subsidiaries (unaudited)	Consolidating Adjustments (unaudited)	Consolidated TRI Pointe Homes, Inc.
Assets				
Cash and cash equivalents	$105,888	$64,741	$—	$170,629
Receivables	5,050	15,068	—	20,118
Intercompany receivables	797,480	—	(797,480)	—
Real estate inventories	613,665	1,666,518	—	2,280,183
Investments in unconsolidated entities	—	16,805	—	16,805
Goodwill and other intangible assets, net	156,603	5,960	—	162,563
Investments in subsidiaries	941,397	—	(941,397)	—
Deferred tax assets	23,630	134,191	—	157,821
Other assets	55,199	50,206	—	105,405
Total Assets	$2,698,912	$1,953,489	$(1,738,877)	$2,913,524
Liabilities				
Accounts payable	$25,800	$43,060	$—	$68,860
Intercompany payables	—	797,480	(797,480)	—
Accrued expenses and other liabilities	57,353	152,656	—	210,009
Unsecured revolving credit facility	260,000	—	—	260,000
Seller financed loans	14,077	600	—	14,677
Senior notes	887,502	—	—	887,502
Total Liabilities	1,244,732	993,796	(797,480)	1,441,048
Equity				
Total stockholders' equity	1,454,180	941,397	(941,397)	1,454,180
Noncontrolling interests	—	18,296	—	18,296
Total Equity	1,454,180	959,693	(941,397)	1,472,476
Total Liabilities and Equity	$2,698,912	$1,953,489	$(1,738,877)	$2,913,524

20. Supplemental Guarantor Information (continued)
Condensed Consolidating Statement of Operations (in thousands - unaudited):

	Three Months Ended June 30, 2015			
	TRI Pointe Homes, Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated TRI Pointe Homes, Inc.
Revenues:				
Home sales	$130,552	$ 296,686	$ —	$ 427,238
Land and lot sales	—	67,490	—	67,490
Other operations	—	789	—	789
Total revenues	130,552	364,965	—	495,517
Expenses:				
Cost of home sales	106,365	235,377	—	341,742
Cost of land and lot sales	—	11,564	—	11,564
Other operations	—	592	—	592
Sales and marketing	5,447	20,187	—	25,634
General and administrative	13,260	15,039	—	28,299
Restructuring charges	(86)	584	—	498
Total expenses	124,986	283,343	—	408,329
Income from operations	5,566	81,622	—	87,188
Equity in loss of unconsolidated entities	—	(155)	—	(155)
Other income, net	(151)	120	—	(31)
Income before taxes	5,415	81,587	—	87,002
Provision for income taxes	(2,388)	(27,852)	—	(30,240)
Equity of net income of subsidiaries	51,903	—	(51,903)	—
Net income	54,930	53,735	(51,903)	56,762
Less: net income attributable to noncontrolling interests	—	(1,832)	—	(1,832)
Net income available to common stockholders	$54,930	$ 51,903	$ (51,903)	$ 54,930

20. Supplemental Guarantor Information (continued)
Condensed Consolidating Statement of Operations (in thousands - unaudited):

	Six Months Ended June 30, 2015			
	TRI Pointe Homes, Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated TRI Pointe Homes, Inc.
Revenues:				
Home sales	$237,410	$ 564,093	$ —	$ 801,503
Land and lot sales	—	69,490	—	69,490
Other operations	—	1,782	—	1,782
Total revenues	237,410	635,365	—	872,775
Expenses:				
Cost of home sales	193,346	448,302	—	641,648
Cost of land and lot sales	—	13,873	—	13,873
Other operations	—	1,154	—	1,154
Sales and marketing	10,428	38,492	—	48,920
General and administrative	25,932	30,546	—	56,478
Restructuring charges	(86)	806	—	720
Total expenses	229,620	533,173	—	762,793
Income from operations	7,790	102,192	—	109,982
Equity in loss of unconsolidated entities	—	(81)	—	(81)
Other income, net	(112)	337	—	225
Income before taxes	7,678	102,448	—	110,126
Provision for income taxes	(3,215)	(34,852)	—	(38,067)
Equity of net income of subsidiaries	65,764	—	(65,764)	—
Net income	70,227	67,596	(65,764)	72,059
Less: net income attributable to noncontrolling interests	—	(1,832)	—	(1,832)
Net income available to common stockholders	$70,227	$ 65,764	$ (65,764)	$ 70,227

20. Supplemental Guarantor Information (continued)

Condensed Consolidating Statement of Cash Flows (in thousands - unaudited):

	Six Months Ended June 30, 2015			
	TRI Pointe Homes, Inc.	Guarantor Subsidiaries	Consolidating Adjustments	Consolidated TRI Pointe Homes, Inc.
Cash flows from operating activities				
Net cash used in operating activities	$(113,102)	$ (63,993)	$ —	$ (177,095)
Cash flows from investing activities:				
Purchases of property and equipment	(427)	(186)	—	(613)
Investments in unconsolidated entities	—	(1,257)	—	(1,257)
Intercompany	(58,117)	—	58,117	—
Net cash used in investing activities	(58,544)	(1,443)	58,117	(1,870)
Cash flows from financing activities:				
Borrowings from debt	140,000	—	—	140,000
Repayment of debt	(2,695)	(200)	—	(2,895)
Debt issuance costs	(2,688)	—	—	(2,688)
Net repayments of debt held by variable interest entities	—	(875)	—	(875)
Contributions from noncontrolling interests	—	2,034	—	2,034
Distributions to noncontrolling interests	—	(4,155)	—	(4,155)
Proceeds from issuance of common stock under share-based awards	660	—	—	660
Excess tax benefits of share-based awards	—	352	—	352
Minimum tax withholding paid on behalf of employees for restricted stock units	(2,190)	—	—	(2,190)
Intercompany	—	58,117	(58,117)	—
Net cash provided by financing activities	133,087	55,273	(58,117)	130,243
Net decrease in cash and cash equivalents	(38,559)	(10,163)	—	(48,722)
Cash and cash equivalents - beginning of period	105,888	64,741	—	170,629
Cash and cash equivalents - end of period	$67,329	$ 54,578	$ —	$ 121,907

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

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain statements relating to future events of our intentions, beliefs, expectations, predictions for the future and other matters that are "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended.

These statements:

- use forward-looking terminology;
- are based on various assumptions made by TRI Pointe; and
- may not prove to 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 of what effect it will have on our operations or financial condition.

We will not update the forward-looking statements contained in this Quarterly Report on Form 10-Q, unless otherwise required by law.

Forward-Looking Statements

These forward-looking statements are generally accompanied by words such as "anticipate," "believe," "could," "estimate," "expect," "goal," "intend," "may," "might," "plan," "potential," "predict," "project," "will," "would," or other words that conv uncertainty of future events or outcomes, including, without limitation, our transaction with Weyerhaeuser Real Estate Company (WRECO). These forward-looking statements include, but are not limited to, statements regarding expected benefits of the WRECO transaction, integration plans and expected synergies therefrom, and our anticipated future financial and operating performance and results, including our estimates for growth.

Forward-looking statements are based on a number of factors, including the expected effect of:

- the economy;
- laws and regulations;
- adverse litigation outcome and the adequacy of reserves;
- changes in accounting principles;
- projected benefit payments; and
- projected tax rates and credits.

Risks, Uncertainties and Assumptions

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

- the effect of general economic conditions, including employment rates, housing starts, interest rate levels, availability of financing for home mortgages and strength of the U.S. dollar;
- market demand for our products, which is related to the strength of the various U.S. business segments and U.S. and international economic conditions;
- levels of competition;

- the successful execution of our internal performance plans, including restructuring and cost reduction initiatives;
- global economic conditions;
- raw material prices;

- energy prices;
- the effect of weather, including the continuing drought in California;
- the risk of loss from earthquakes, volcanoes, fires, floods, droughts, windstorms, hurricanes, pest infestations and other natural disasters;
- transportation costs;
- federal and state tax policies;
- the effect of land use, environment and other governmental regulations;
- legal proceedings;
- 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;
- the risk that disruptions from the transaction with WRECO will harm our business;
- our ability to achieve the benefits of the transaction with WRECO in the estimated amount and the anticipated timeframe, if at all;
- our ability to integrate WRECO successfully and to achieve the anticipated synergies therefrom;
- change in accounting principles;
- risks related to unauthorized access to our computer systems, theft of our customer's confidential information or other forms of cyber-attack; and
- other factors described in "Risk Factors."

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related condensed notes thereto contained elsewhere in this report. 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 you to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the Securities and Exchange Commission ("SEC"), including our Annual Report on Form 10-K for the year ended December 31, 2014, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, 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. You 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 your investment in, our common stock.

Reverse Acquisition and Formation of TRI Pointe Group, Inc.

On July 7, 2014 (the "Closing Date"), TRI Pointe Homes, Inc. consummated the previously announced merger (the "Merger") of our wholly owned subsidiary, Topaz Acquisition, Inc. ("Merger Sub"), with and into Weyerhaeuser Real Estate Company ("WRECO"), with WRECO surviving the Merger and becoming our wholly owned subsidiary, as contemplated by the Transaction Agreement, dated as of November 3, 2013 (the "Transaction Agreement"), by and among us, Weyerhaeuser Company ("Weyerhaeuser"), the Company, WRECO and Merger Sub. The Merger is accounted for in accordance with ASC Topic 805, Business Combinations ("ASC 805"). For accounting purposes, the Merger is treated as a "reverse acquisition" and WRECO is considered the accounting acquirer. Accordingly, WRECO is reflected as the predecessor and acquirer and therefore the accompanying consolidated financial statements reflect the historical consolidated financial statements of WRECO for all periods presented and do not include the historical financial statements of TRI Pointe prior to the Closing Date. Subsequent to the Closing Date, the consolidated financial statements reflect the results of the combined company.

For further information on the Merger, see Note 2, Merger with Weyerhaeuser Real Estate Company, of the condensed notes to the unaudited consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10 Q. In the Merger, each issued and outstanding WRECO common share was converted into 1.297 shares of TRI Pointe common stock. The historical issued and outstanding WRECO common shares (100,000,000 common shares for all periods presented prior to the Merger) have been recast as 129,700,000 common shares of the Company for all periods prior to the Merger) in all periods presented to reflect this conversion.

On July 7, 2015, TRI Pointe Homes, Inc., a Delaware corporation (“TRI Pointe Homes”), reorganized its corporate structure (the “Reorganization”) whereby TRI Pointe Homes became a direct, wholly owned subsidiary of TRI Pointe Group, Inc., a Delaware corporation (“TRI Pointe Group”). Please see "Note Regarding this Quarterly Report" above regarding the reorganization of our corporate structure on July 7, 2015.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Home sales	$427,238	$309,609	$801,503	$551,511
Land and lot sales	67,490	27,512	69,490	30,899
Other operations	789	5,442	1,782	8,285
Total revenues	495,517	342,563	872,775	590,695
Expenses:				
Cost of home sales	341,742	242,709	641,648	433,977
Cost of land and lot sales	11,564	24,765	13,873	27,928
Other operations	592	567	1,154	2,199
Sales and marketing	25,634	23,798	48,920	44,703
General and administrative	28,299	18,184	56,478	36,189
Restructuring charges	498	520	720	2,178
Total expenses	408,329	310,543	762,793	547,174
Income from operations	87,188	32,020	109,982	43,521
Equity in loss of unconsolidated entities	(155)	(69)	(81)	(137)
Transaction expenses	—	(448)	—	(506)
Other income (expense), net	(31)	(1,476)	225	(741)
Income before taxes	87,002	30,027	110,126	42,137
Provision for income taxes	(30,240)	(5,802)	(38,067)	(10,331)
Net income	56,762	24,225	72,059	31,806
Less: net income attributable to noncontrolling interests	(1,832)	—	(1,832)	—
Net income available to common stockholders	$54,930	$24,225	$70,227	$31,806
Earnings per share				
Basic	$0.34	$0.19	$0.43	$0.25
Diluted	$0.34	$0.19	$0.43	$0.25

Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014

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

	Three Months Ended June 30, 2015			Three Months Ended June 30, 2014			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	184	18.0	3.4	120	17.0	2.4	53 %	6 %	45 %
Pardee	355	23.5	5.0	284	20.0	4.7	25 %	18 %	6 %

Quadrant	116	10.8	3.6	106	14.0	2.5	9 %	(23)%	43 %
Trendmaker	124	26.5	1.6	166	24.5	2.3	(25)%	8 %	(31)%
TRI Pointe	365	26.5	4.6	—	—	—	N/A	N/A	N/A
Winchester	94	14.3	2.2	87	22.0	1.3	8 %	(35)%	67 %
Total	1,238	119.5	3.5	763	97.5	2.6	62 %	23 %	32 %

Net new home orders for the three months ended June 30, 2015 increased 62% to 1,238, compared to 763 during the prior year period. Our overall absorption rate for the three months ended June 30, 2015 was 10.4 per average selling community (3.5 monthly), compared to 7.8 per average selling community (2.6 monthly) during the prior year period. The increase in net new home orders, average selling communities and monthly absorption rate was primarily the result of the addition of TRI Pointe, which had 365 orders, 26.5 average selling communities and a monthly absorption rate of 4.6 per average selling community in the three months ended June 30, 2015 with no comparable amounts in the prior year period. In addition, the increase in net new home orders was positively impacted by an increase in our monthly absorption rate in all of our segments compared to the prior year period except for Trendmaker, which experienced a decrease as a result of a slowdown in the premium housing market in Houston driven by inclement weather during the period and by the uncertainty around oil prices.

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

	As of June 30, 2015			As of June 30, 2014			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	274	$106,347	$ 388	149	$61,255	$ 411	84%	74 %	(6)%
Pardee	471	296,298	629	428	238,276	557	10%	24 %	13 %
Quadrant	199	87,233	438	155	77,671	501	28%	12 %	(13)%
Trendmaker	243	128,645	529	262	136,115	520	(7)%	(5)%	2 %
TRI Pointe	631	449,080	712	—	—	—	N/A	N/A	N/A
Winchester	180	132,244	735	197	156,908	796	(9)%	(16)%	(8)%
Total	1,998	$1,199,847	$ 601	1,191	$670,225	$ 563	68%	79 %	7 %

Backlog units reflects the number of homes, net of actual cancellations experienced during the period, for which we have entered into sales contracts with customers but for which we have not yet delivered the homes. 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 buyers who contracted to buy a home but did not close escrow (as a percentage of overall orders) was 16% for the three months ended June 30, 2015 and June 30, 2014, respectively. The dollar value of backlog was $1.2 billion as of June 30, 2015, an increase of $529.6 million, or 79%, compared to $670.2 million as of June 30, 2014. This increase is due to an increase in the number of homes in backlog of 807, or 68%, to 1,998 homes as of June 30, 2015 from 1,191 homes as of June 30, 2014, in addition to an increase in the average sales price of homes in backlog of $38,000, or 7%, to $601,000 as of June 30, 2015 compared to $563,000 as of June 30, 2014. The increase in the number of homes in backlog and the average sales price of homes in backlog was mainly the result of the addition of TRI Pointe, which had 631 homes in backlog and an average sales price in backlog of $712,000 as of June 30, 2015. In addition to the increases associated with TRI Pointe in the current year period, backlog units and backlog dollar value increased at three of our reporting segments existing in the prior year period, with the exception of Trendmaker and Winchester.

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

	Three Months Ended June 30, 2015			Three Months Ended June 30, 2014			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	91	$33,574	$ 369	93	$35,045	$ 377	(2)%	(4)%	(2)%
Pardee	242	110,231	456	246	118,905	483	(2)%	(7)%	(6)%
Quadrant	87	35,689	410	67	25,180	376	30 %	42 %	9 %
Trendmaker	123	64,652	526	139	67,756	487	(12)%	(5)%	8 %
TRI Pointe	174	130,553	750	—	—	—	N/A	N/A	N/A
Winchester	81	52,539	649	83	62,723	756	(2)%	(16)%	(14)%
Total	798	$427,238	$ 535	628	$309,609	$ 493	27 %	38 %	9 %

Home sales revenue increased $117.6 million, or 38%, to $427.2 million for the three months ended June 30, 2015 from $309.6 million for the prior year period. The increase was comprised of: (i) $91.0 million related to an increase in average sales price of $42,000 per home to $535,000 for the three months ended June 30, 2015 from $493,000 in the prior year period; and (ii) $26.6 million due to a 27% increase in homes delivered to 798 for the three months ended June 30, 2015 from 628 in the prior year period. The increase in the average sales price and new home deliveries was primarily attributable to the addition of TRI Pointe, which had an average selling price of homes delivered of $750,000 and 174 deliveries with no comparable amounts in the prior year period.

Homebuilding Gross Margins (dollars in thousands)

	Three Months Ended June 30,			
	2015	%	2014	%
Home sales	$427,238	100.0%	$309,609	100.0%
Cost of home sales	341,742	80.0 %	242,709	78.4 %
Homebuilding gross margin	85,496	20.0 %	66,900	21.6 %
Add: interest in cost of home sales	7,640	1.8 %	5,340	1.7 %
Add: impairments and lot option abandonments	882	0.2		