TRI Pointe Homes, Inc.
Form 10-Q
August 13, 2013
Table of Contents

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, 2013

or

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

For the transition period from _________ to _________

Commission File Number 1-35796

TRI Pointe Homes, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**27-3201111**
(State or other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**

19520 Jamboree Road, Suite 200

Irvine, California 92612

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code (949) 478-8600

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 ¨
Non-accelerated filer x **(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 Act). Yes ¨ No x

Registrant s shares of common stock outstanding at August 7, 2013: 31,597,907

Table of Contents

TRI POINTE HOMES, INC.

FORM 10-Q

INDEX

		Page Number
PART I.	**Financial Information**	
Item 1.	Financial Statements	3
	Consolidated Balance Sheets as of June 30, 2013 (unaudited) and December 31, 2012	3
	Consolidated Statements of Operations (unaudited) for the Three and Six Months Ended June 30, 2013 and 2012	4
	Consolidated Statements of Comprehensive Income (Loss) (unaudited) for the Three and Six Months Ended June 30, 2013 and 2012	5
	Consolidated Statement of Equity (unaudited) for the Six Months Ended June 30, 2013	6
	Consolidated Statements of Cash Flows (unaudited) for the Six Months Ended June 30, 2013 and 2012	7
	Condensed Notes to Condensed Consolidated Financial Statements (unaudited)	8
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	29
Item 4.	Controls and Procedures	29
Part II.	**Other Information**	
Item 5.	Other Information	30
Item 6.	Exhibits	30
	Signatures	31

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TRI POINTE HOMES, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	June 30, 2013 (unaudited)	December 31, 2012
Assets		
Cash and cash equivalents	$ 37,537	$ 19,824
Marketable securities	39,837	
Real estate inventories	301,831	194,083
Contracts and accounts receivable	1,448	548
Other assets	2,306	3,061
Total Assets	$ 382,959	$ 217,516
Liabilities and Equity		
Accounts payable and accrued liabilities	$ 12,834	$ 10,995
Notes payable	62,557	57,368
Total Liabilities	75,391	68,363
Commitments and contingencies (Note 7)		
Equity:		
Members equity		149,153
Stockholders equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, no shares outstanding as of June 30, 2013		
Common stock, $0.01 par value, 500,000,000 shares authorized, 31,597,907 shares issued and outstanding as of June 30, 2013	316	
Additional paid-in capital	309,351	
Accumulated deficit	(1,917)	
Accumulated other comprehensive loss	(182)	
Total Stockholders equity	307,568	
Total Equity	307,568	149,153
Total Liabilities and Equity	$ 382,959	$ 217,516

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

TRI POINTE HOMES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(dollars in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Revenues:				
Home sales	$ 47,457	$ 7,736	$ 71,314	$ 12,324
Fee building	3,630	72	7,661	137
Total revenues	51,087	7,808	78,975	12,461
Expenses:				
Cost of home sales	38,318	6,807	57,767	10,879
Fee building	3,395	46	7,020	111
Sales and marketing	1,791	797	3,121	1,290
General and administrative	4,108	1,473	7,421	2,651
Total expenses	47,612	9,123	75,329	14,931
Income (loss) from operations	3,475	(1,315)	3,646	(2,470)
Other income (expense), net	89	(2)	261	10
Income (loss) before income taxes	3,564	(1,317)	3,907	(2,460)
Provision for income taxes	(1,489)		(1,562)	
Net income (loss)	$ 2,075	$ (1,317)	$ 2,345	$ (2,460)
Net income (loss) per share (Note 2)				
Basic	$ 0.07	$ (0.09)	$ 0.08	$ (0.18)
Diluted	$ 0.07	$ (0.09)	$ 0.08	$ (0.18)
Weighted average number of shares (Note 2)				
Basic	31,597,907	14,572,743	29,940,448	13,668,616
Diluted	31,614,646	14,572,743	29,953,625	13,668,616

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

TRI POINTE HOMES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income (loss)	$ 2,075	$ (1,317)	$ 2,345	$ (2,460)
Other comprehensive income (loss):				
Unrealized loss on marketable securities available for sale:				
Unrealized holding loss arising during the period	(264)		(163)	
Reclassification adjustment included in net income	21		(19)	
Unrealized loss on marketable securities, net	(243)		(182)	
Comprehensive income (loss)	$ 1,832	$ (1,317)	$ 2,163	$ (2,460)

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

TRI POINTE HOMES, INC.

CONSOLIDATED STATEMENT OF EQUITY

(unaudited)

(in thousands, except share amounts)

	Stockholders Equity							
	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders Equity	Members Equity	Total Equity
Balance at December 31, 2012		$	$	$	$	$	$ 149,153	$ 149,153
Net income				2,345		2,345		2,345
Unrealized loss on available-for-sale marketable securities					(182)	(182)		(182)
Total comprehensive income						2,163		2,163
Conversion of members equity into common stock	21,597,907	216	153,199	(4,262)		149,153	(149,153)	
Issuance of common stock, net of issuance costs	10,000,000	100	155,308			155,408		155,408
Stock-based compensation expense			844			844		844
Balance at June 30, 2013	31,597,907	$ 316	$ 309,351	$ (1,917)	$ (182)	$ 307,568	$	$ 307,568

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

TRI POINTE HOMES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Six Months Ended June 30,	
	2013	**2012**
Cash flows from operating activities		
Net income (loss)	$ 2,345	$ (2,460)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	224	139
Amortization of stock-based compensation	844	232
Gain on sales of marketable securities	(19)	
Changes in operating assets and liabilities:		
Real estate inventories	(107,748)	(45,494)
Contracts and accounts receivable	(900)	(425)
Other assets	821	(4)
Accounts payable and accrued liabilities	1,839	(1,300)
Net cash used in operating activities	(102,594)	(49,312)
Cash flows from investing activities		
Purchases of furniture and equipment	(290)	(61)
Purchases of marketable securities	(125,000)	
Sales of marketable securities	85,000	
Net cash used in investing activities	(40,290)	(61)
Cash flows from financing activities		
Net proceeds from issuance of common stock	155,408	
Cash contributions from member		14,000
Financial advisory fee paid on capital raised		(490)
Borrowings from notes payable	53,850	45,002
Repayments of notes payable	(48,661)	(11,283)
Net cash provided by financing activities	160,597	47,229
Net increase (decrease) in cash and cash equivalents	17,713	(2,144)
Cash and cash equivalents beginning of period	19,824	10,164
Cash and cash equivalents end of period	$ 37,537	$ 8,020
Supplemental disclosure of cash flow information		
Interest paid, net of amounts capitalized	$	$

See accompanying notes to the unaudited condensed consolidated financial statements.

TRI POINTE HOMES, INC

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Organization and Basis of Presentation

Organization

TRI Pointe Homes, Inc. is engaged in the design, construction and sale of innovative single-family homes in planned communities in major metropolitan areas located throughout Southern and Northern California and Colorado.

Initial Public Offering

In January 2013, the Company completed its initial public offering (IPO) in which it issued and sold 10,000,000 shares of common stock at the public offering price of $17.00 per share. The company received proceeds of $155.4 million in net proceeds after deducting underwriting discounts and commissions of $11.9 million and other net offering expenses of $2.7 million. The offering also included 5,742,350 shares of our common stock sold by a selling stockholder for $90.8 million, in net proceeds after deducting underwriting discounts and commissions of $6.8 million. In preparation of the IPO, the Company reorganized from a Delaware limited liability company into a Delaware corporation and was renamed TRI Pointe Homes, Inc. Upon the close of the IPO and as of June 30, 2013, the Company had 31,597,907 common shares outstanding.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts have been eliminated upon consolidation. Subsequent events have been evaluated through the date the financial statements were issued.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012. The accompanying unaudited condensed financial statements include all adjustments (consisting of normal recurring entries) necessary for the fair presentation of our results for the interim period presented. Results for the interim period are not necessarily indicative of the results to be expected for the full year.

Unless the context otherwise requires, the terms we , us , our and the Company refer to TRI Pointe Homes, Inc. (and its consolidated subsidiaries).

Use of Estimates

The preparation of the Company s consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of commitments and contingencies. Accordingly, actual results could differ materially from these estimates.

Recently Issued Accounting Standards

On February 5, 2013, the FASB issued Accounting Standards Update 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (ASU 2013-02), which adds additional disclosure requirements for items reclassified out of accumulated other comprehensive income (loss). We adopted ASU 2013-02 during the six months ended June 30, 2013.

Table of Contents

2. Earnings (Loss) Per Share

Basic and diluted earnings (loss) per share for the three and six months ended June 30, 2013 and 2012 give effect to the conversion of the Company s members equity into common stock on January 30, 2013 as though the conversion had occurred as of the beginning of the reporting period or the original date of issuance, if later. The number of shares converted was based on the actual initial public offering price of $17.00 per share.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Numerator:				
Net income (loss)	$ 2,075	$ (1,317)	$ 2,345	$ (2,460)
Denominator:				
Basic weighted-average shares outstanding	31,597,907	14,572,743	29,940,448	13,668,616
Effect of dilutive shares:				
Unvested restricted stock units[1]	16,739		13,177	
Diluted weighted-average shares outstanding	31,614,646	14,572,743	29,953,625	13,668,616
Basic income (loss) per share	$ 0.07	$ (0.09)	$ 0.08	$ (0.18)
Diluted income (loss) per share[1]	$ 0.07	$ (0.09)	$ 0.08	$ (0.18)

(1) For periods with a net loss, no stock options or unvested restricted stock units are included in the dilution calculation as all options and unvested restricted stock units outstanding are considered antidilutive. For the three and six months ended June 30, 2013, no stock options were included in the diluted income per share calculation as the effect of their inclusion would be antidilutive. There were no outstanding options or non-vested shares in 2012.

3. Real Estate Inventories and Capitalized Interest

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

	June 30, 2013	December 31, 2012
Inventories owned:		
Deposits and pre-acquisition costs	$ 14,931	$ 12,285
Land held and land under development	199,031	129,621
Homes completed or under construction	77,863	40,955
Model homes	10,006	11,222
	$ 301,831	$ 194,083

Model homes, homes completed, and homes under construction include all costs associated with home construction, including land, development, indirects, permits, and vertical construction. Land under development includes costs incurred during site development such as land, development, indirects, and permits. Land is classified as held for future development if no significant development has occurred.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Interest incurred	$ 579	$ 475	$ 1,313	$ 647
Interest expensed				
Capitalized interest in beginning inventory	$ 1,842	$ 274	$ 1,364	$ 159
Interest capitalized as a cost of inventory	579	475	1,313	647
Interest previously capitalized as a cost of inventory, included in cost of sales	(502)	(69)	(758)	(126)
Capitalized interest in ending inventory	$ 1,919	$ 680	$ 1,919	$ 680

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 sales as related units are closed.

4. Warranty Reserves

Warranty reserves consisted of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Warranty reserves, beginning of period	$ 1,575	$ 965	$ 1,593	$ 985
Warranty reserves accrued	621	75	728	122
Warranty expenditures	(257)	(49)	(382)	(116)
Warranty reserves, end of period	$ 1,939	$ 991	$ 1,939	$ 991

Estimated future direct warranty costs are accrued and charged to cost of sales in the period when the related homebuilding revenues are recognized. Amounts accrued are based upon historical experience rates. Indirect warranty overhead salaries and related costs are charged to the reserve in the period incurred. We assess the adequacy of our warranty accrual on a quarterly basis and adjust the amounts recorded if necessary. Our warranty accrual is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets.

5. Notes Payable

Notes payable consisted of the following (in thousands):

	June 30, 2013	December 31, 2012
Revolving credit facility	$	$ 6,855
Acquisition and development loans	37,181	37,996
Construction loans	25,376	12,517

	$ 62,557	$ 57,368

As of June 30, 2013, the Company had a secured revolving credit facility which has a maximum loan commitment of $30.0 million, an initial maturity date of April 19, 2014 and a final maturity date of April 19, 2015. The Company may borrow under its facility in the ordinary course of business to fund its operations, including its land development and home building activities. The amount the Company may borrow is subject to applicable borrowing base provisions and concentration limitations, which may also limit the amount available or outstanding under the facility. The facility is secured by deeds of trust on the real property and improvements thereon, and the borrowings are repaid with the net sales proceeds from the sales of homes, subject to a minimum release price. Interest rates charged under the facility include applicable LIBOR and prime rate pricing options, subject to a minimum interest rate floor. During the three months ended June 30, 2013, the interest rate floor was lowered from 5.0% to 3.75%. As of June 30, 2013, there was no outstanding principal balance and the Company had $28.1 million of availability under the facility after considering the borrowing base provisions and outstanding letters of credit.

Table of Contents

The Company enters into secured acquisition and development loan agreements to purchase and develop land parcels. In addition, the Company enters into secured construction loan agreements for the construction of its model and production homes. The acquisition and development loans will be repaid as lots are released from the loans based upon a specific release price, as defined in each respective loan agreement. The construction loans will be repaid with proceeds from home closings based upon a specific release price, as defined in each respective loan agreement.

As of June 30, 2013, the Company had $56.9 million of aggregate acquisition and development loan commitments and $46.9 million of aggregate construction loan commitments, of which $37.2 million and $25.4 million was outstanding, respectively. The loans have maturity dates ranging from August 2013 to January 2016, including the six month extensions which are at our election (subject to certain conditions). The interest rate on certain loans were lowered during the three months ended June 30, 2013 and now bear interest at a rate based on applicable LIBOR or Prime Rate pricing options plus an applicable margin, with certain loans containing a minimum interest rate floor of 4.0%. As of June 30, 2013, the weighted average interest rate was 3.1% per annum.

As of December 31, 2012, the Company s secured revolving credit facility with a maximum loan commitment of $30.0 million, of which $6.9 million was outstanding, had $21.4 million of availability and an interest rate of 5.5% per annum. In addition, the Company had $68.1 million of aggregate acquisition and development loan commitments and $25.4 million of aggregate construction loan commitments, of which $38.0 million and $12.5 million were outstanding, respectively. The loans had maturity dates ranging from August 2013 to February 2015, including the six month extensions which are at our election (subject to certain conditions) and bear interest at a rate based on applicable LIBOR or Prime Rate pricing options, with interest rate floors ranging from 4.0% to 6.0%. As of December 31, 2012, the weighted average interest rate was 5.2% per annum.

During the three months ended June 30, 2013 and 2012, the Company incurred interest of $579,000 and $475,000, respectively, related to its notes payable. During the six months ended June 30, 2013 and 2012, the Company incurred interest of $1.3 million and $647,000, respectively, related to its notes payable. All interest incurred during the three and six months ended June 30, 2013 and 2012 was capitalized to real estate inventories.

Under the revolving credit facility and construction notes payable, the Company is required to comply with certain financial covenants, including but not limited to (i) a minimum tangible net worth; (ii) a maximum total liabilities to tangible net worth ratio; and (iii) a minimum liquidity amount. The Company was in compliance with all financial covenants as of June 30, 2013 and December 31, 2012.

6. Fair Value Disclosures

ASC 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

The following table presents book values and estimated fair values of financial instruments (in thousands):

		June 30, 2013		December 31, 2012	
	Hierarchy	Cost	Fair Value	Cost	Fair Value
Marketable Securities[1]	Level 1	$ 40,019	$ 39,837	$	$
Notes payable					
Revolving credit facility[2]	Level 3	$	$	$ 6,855	$ 6,855
Acquisition and development loans[2]	Level 3	37,181	37,181	37,996	37,996
Construction loans[2]	Level 3	25,376	25,376	12,517	12,517
Total notes payable		$ 62,557	$ 62,557	$ 57,368	$ 57,368

(1) Marketable securities consist of mutual fund equity securities with quoted prices in active markets. As of June 30, 2013, the Company s marketable securities were treated as available-for-sale investments and changes in fair value were recorded as a component of accumulated other comprehensive income. As of June 30, 2013, the Company s marketable securities were in an unrealized loss position of $(182,000). During the three and six months ended June 30, 2013, the Company realized a $(21,000) loss and $19,000 gain, respectively, from the sale of marketable securities that were recorded to other income (expense), net in the consolidated statements of operations. The Company did not hold any marketable securities as of December 31, 2012.

(2) Estimated fair values of the outstanding revolving credit facility, acquisition and development loans, and construction loans at June 30, 2013 and December 31, 2012 were based on cash flow models discounted at market interest rates that considered underlying risks of the debt. Due to the short term nature of the revolving credit facility, acquisition and development loans and construction loans, book value approximated fair value at June 30, 2013 and December 31, 2012.

Nonfinancial assets and liabilities include items such as inventory and long lived assets that are measured at fair value when acquired and resulting from impairment, if deemed necessary. During the three and six months ended June 30, 2013 and 2012, the Company did not record any fair value adjustments to those financial and nonfinancial assets and liabilities measured at fair value on a nonrecurring basis.

7. Commitments and Contingencies

Lawsuits, claims and proceedings have been or 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. If our evaluations indicate loss contingencies that could be material are not probable, but are reasonably possible, we will disclose their nature with an estimate of possible range of losses or a statement that such loss is not reasonably estimable. At June 30, 2013 and December 31, 2012, the Company did not have any accruals for asserted or unasserted matters.

We obtain surety bonds in the normal course of business to ensure completion of certain infrastructure improvements of our projects. As of June 30, 2013 and December 31, 2012, the Company had outstanding surety bonds totaling $21.1 million and $11.9 million, respectively. The beneficiaries of the bonds are various municipalities. In the unlikely event that any such surety bond issued by third parties are called because the required improvements are not completed, the Company could be obligated to reimburse the issuer of the bond.

8. Stock-Based Compensation

The Company s stock compensation plan, the 2013 Long-Term Incentive Plan (2013 Incentive Plan), was adopted by our board of directors in January 2013. The 2013 Incentive Plan provides for the grant of equity-based awards, including

Table of Contents

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.

The number of shares of our common stock that may be issued under the 2013 Incentive Plan is 2,527,833 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 or any predecessor 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 our the 2013 Incentive Plan.

The Company has issued stock option awards and restricted stock unit awards against the 2013 Incentive Plan. The exercise price of our stock-based awards may not be less than the market value of our common stock on the date of grant. The fair value for stock options is established at the date of grant using the Black-Scholes model for time based vesting awards. Our stock option awards typically vest over a one to three year period and expire ten years from the date of grant. Our restricted stock awards are valued based on the closing price of our common stock on the date of grant and typically vest over a one to three year period.

On January 31, 2013, the Company granted an aggregate of 282,201 stock options, with an exercise price per share of $17, and 71,176 restricted stock units to members of the management team, officers and directors. On March 1, 2013, the Company granted an aggregate of 72,300 restricted stock units to its employees. Each of the aforementioned awards vest ratably annually on the anniversary of the grant date over a three year period. On March 21, 2013, the Company granted an aggregate of 3,699 stock options with an exercise price per share of $19.95 and 4,512 restricted stock units to members of our independent Board of Directors as part of their annual compensation as directors. 100% of the awards cliff vest on the one year anniversary of the grant date. There were no stock option exercises or restricted stock unit vesting during the three and six months ended June 30, 2013. There were 800 restricted stock units that were forfeited during the six months ended June 30, 2013.

On September 24, 2010, the Company granted equity based incentive units to management. In connection with the IPO, the incentive units converted into shares of common stock. The recipients of the equity based incentive units have all the rights of a stockholder, including the rights to vote those shares and receive any dividends or distributions made with respect to those shares and any shares or other property received in respect of those shares; provided, however, any non-cash dividend or distribution with respect to the common stock shall be subject to the same vesting provisions as the incentive units. The vesting terms of the equity based incentive units are as follows: (1)18.75% of such units vested, subject to limitation in (3) below on the date following the first-year anniversary of the date of such officer s employment; (2) 56.25% of such units vest, subject to limitation in (3) below in equal quarterly installments between the first and fourth-year anniversary of the date of such officer s employment; (3) 25% of the awards granted in (1) and (2) will vest upon a liquidity event as defined; and (4) 25% of such units will be converted into a number of shares of restricted stock prior to a liquidity event, as defined. The grant-date fair value of the equity based incentive units granted during the period ended December 31, 2010 was $3.3 million.

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,	
	2013	2012	2013	2012
Stock options	$ 170	$	$ 279	$
Restricted stock units	231		333	
Equity based incentive units	116	116	232	232
Total stock-based compensation	$ 517	$ 116	$ 844	$ 232

- 13 -

Table of Contents

The following table presents the remaining unrecognized compensation expense related to all stock-based awards and the weighted term over which the expense will be recognized (dollars in thousands):

	June 30, 2013	
	Unrecognized Expense	Weighted Average Period (Years)
Stock options	$ 1,702	2.6
Restricted stock units	2,171	2.6
Equity based incentive units	2,031	1.3
Total stock-based compensation	$ 5,904	1.5

9. Income Taxes

The Company accounts for income taxes in accordance with ASC 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 existing at each balance sheet date using enacted tax rates for the years in which taxes are expected to be paid or recovered. Further, 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.

As discussed in Note 1, during 2012 and for the first 30 calendar days of 2013, the Company was a Delaware limited liability company which was treated as partnership for income tax purposes and was subject to certain minimal taxes and fees; however, income taxes on taxable income or losses realized by the Company were the obligation of the members. The Company has concluded that there were no significant uncertain tax positions requiring recognition in its financial statements, nor has the Company been assessed interest or penalties by any major tax jurisdictions related to the first 30 calendar days of 2013 or fiscal 2012.

On January 30, 2013, the Company reorganized from a Delaware limited liability company into a Delaware corporation and was renamed TRI Pointe Homes, Inc. As result of this change in tax status, the Company recorded $906,000 of deferred tax assets related to various temporary differences. We have recorded a full valuation allowance on all of our deferred assets, primarily due to our cumulative loss position. If the Company were to move into a cumulative income position, and based on other considerations, we may be able to reverse a portion or all of the valuation allowance which could benefit future periods.

The Company has recorded a tax provision of $1.5 million for the three months ended June 30, 2013 based on an effective tax rate of 42%. For six months ended June 30, 2013, the Company recorded a tax provision of $1.6 million based on an effective tax rate of 42% on the pretax income generated for the period from January 31, 2013 to June 30, 2013.

Table of Contents

10. Segment Information

The Company s operations are organized into two reportable segments: homebuilding and construction services. In accordance with ASC 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.

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. Financial information relating to reportable segments was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues				
Homebuilding	$ 47,457	$ 7,736	$ 71,314	$ 12,324
Fee building	3,630	72	7,661	137
Total	$ 51,087	$ 7,808	$ 78,975	$ 12,461
Gross profit				
Homebuilding	$ 9,139	$ 929	$ 13,547	$ 1,445
Fee building	235	26	641	26
Total	$ 9,374	$ 955	$ 14,188	$ 1,471

	June 30, 2013	December 31, 2012
Assets		
Homebuilding	$ 381,708	$ 216,667
Fee building	1,251	849
Total	$ 382,959	$ 217,516

11. Subsequent Events

Subsequent to June 30, 2013, the Company entered into a $125 million three-year secured revolving credit facility (the $125 million Revolving Credit Facility). We expect to use the $125 million Revolving Credit Facility primarily to fund the acquisition and development of lots and the construction of homes. Borrowings under the $125 million Revolving Credit Facility are secured by a first priority lien on borrowing base properties and will be subject to, among other things, a borrowing base formula. In addition to customary representations and warranties, affirmative and negative covenants and events of default, the $125 million Revolving Credit Facility contains specific financial covenants requiring the Company to maintain on a quarterly basis. The interest rate on borrowings will be at a rate based on LIBOR plus an applicable margin, ranging from 250 to 370 basis points depending on the Company s leverage ratio.

Table of Contents

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

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

Various statements contained in this quarterly report on Form 10-Q, including those that express a belief, expectation or intention, as well as those that are not statements of historical fact, are forward-looking statements. These forward-looking statements may include projections and estimates concerning the timing and success of specific projects and our future production, revenues, income and capital spending. Our forward-looking statements are generally accompanied by words such as estimate, project, predict, believe, expect, intend, anticipate, plan, goal or other words that convey the uncertainty of future events or outcomes. The forward-looking statements in this quarterly report speak only as of the date of this quarterly report, and we disclaim any obligation to update these statements unless required by law, and we caution you not to rely on them unduly. We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. The following factors, among others, may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements:

- economic changes either nationally or in the markets in which we operate, including declines in employment, volatility of mortgage interest rates and inflation;
- a downturn in the homebuilding industry;
- continued volatility and uncertainty in the credit markets and broader financial markets;
- our future operating results and financial condition;
- our business operations;
- changes in our business and investment strategy;
- availability of land to acquire and our ability to acquire such land on favorable terms or at all;
- availability, terms and deployment of capital;
- continued or increased disruption in the availability of mortgage financing or the number of foreclosures in the market;
- shortages of or increased prices for labor, land or raw materials used in housing construction;
- delays in land development or home construction resulting from adverse weather conditions or other events outside our control;
- the cost and availability of insurance and surety bonds;

- changes in, or the failure or inability to comply with, governmental laws and regulations;
- the timing of receipt of regulatory approvals and the opening of projects;
- the degree and nature of our competition;
- our leverage and debt service obligations;
- our relationship, and actual and potential conflicts of interest, with Starwood Capital Group;
- availability of qualified personnel and our ability to retain our key personnel; and
- additional factors identified by us in documents filed with the Securities and Exchange Commission, including those set forth in our Form 10-K for the year ended December 31, 2012 in Item 1A, Risk Factors .

Unless the context otherwise requires, the terms we , us , our and the Company refer to TRI Pointe Homes, Inc. and its consolidated subsidiaries. The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and related 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, 2012 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.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Home sales	$ 47,457	$ 7,736	$ 71,314	$ 12,324
Fee building	3,630	72	7,661	137
Total revenues	51,087	7,808	78,975	12,461
Expenses:				
Cost of home sales	38,318	6,807	57,767	10,879
Fee building	3,395	46	7,020	111
Sales and marketing	1,791	797	3,121	1,290
General and administrative	4,108	1,473	7,421	2,651
Total expenses	47,612	9,123	75,329	14,931
Income (loss) from operations	3,475	(1,315)	3,646	(2,470)
Other income (expense), net	89	(2)	261	10
Income (loss) before income taxes	3,564	(1,317)	3,907	(2,460)
Provision for income taxes	(1,489)		(1,562)	
Net income (loss)	$ 2,075	$ (1,317)	$ 2,345	$ (2,460)
Net income (loss) per share				
Basic	$ 0.07	$ (0.09)	$ 0.08	$ (0.18)
Diluted	$ 0.07	$ (0.09)	$ 0.08	$ (0.18)

Table of Contents

Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012

Net New Home Orders and Backlog (dollars in thousands)

	Three Months Ended June 30,		Increase (Decrease)	
	2013	2012	Amount	%
Net new home orders	131	38	93	245%
Cancellation rate	6%	12%	(6)%	(50)%
Average selling communities	6.8	4.6	2.2	48%
Selling communities at end of period	7	4	3	75%
Backlog (dollar value)	$ 107,759	$ 22,478	$ 85,281	379%
Backlog (units)	183	34	149	438%
Average sales price of backlog	$ 589	$ 661	$ (72)	(11)%

Net new home orders for the three months ended June 30, 2013 increased 245% to 131, compared to 38 during the prior year period. Our overall absorption rate (the rate at which home orders are contracted, net of cancellations) increased for the three months ended June 30, 2013 to 19.3 per average selling community (6.42 monthly), compared to 8.3 per average selling community (2.75 monthly) during the prior year period. Our cancellation rate of buyers for our owned projects who contracted to buy a home but did not close escrow (as a percentage of overall orders) was 6% for the three months ended June 30, 2013 as compared to 12% during the prior year period. We experienced substantial order growth due to an increase in our average selling community count and the improving housing conditions and market acceptance of our well located new communities. Our average number of selling communities increased by 2.2 communities to 6.8 for the three months ended June 30, 2013, from 4.6 for the three months ended June 30, 2012 due to the opening of six new communities, offset by taking final orders and closing three communities. The increase in net new home orders positively impacted our number of homes in backlog, which is discussed below. We expect that our net new home orders and backlog increases will have a positive impact on revenues and cash flow in future periods.

Backlog reflects the number of homes, net of actual cancellations experienced during the period, for which we have entered into a sales contract with a customer but for which we have not yet delivered the home. Homes in backlog are generally closed within three to six months, although we may experience cancellations of sales contracts prior to closing. The increase in backlog units of 149 homes was driven by the 245% increase in net new home orders during the three months ended June 30, 2013 as compared to same period in the previous year. The dollar value of backlog as of June 30, 2013 was $107.8 million, an increase of $85.3 million compared to $22.5 million as of June 30, 2012. The increase in dollar amount of backlog reflects an increase in the number of homes in backlog of 149, or 438%, to 183 homes as of June 30, 2013 from 34 homes as of June 30, 2012, offset by a decrease in the average sales price of homes in backlog of $72,000, or 11%, to $589,000 as of June 30, 2013 compared to $661,000 as of June 30, 2012. The decrease was due to the relative low number of units in backlog in the prior year period of 34, which included 9 units from Northern California with an average sales price of $1.4 million.

Home Sales Revenue and New Homes Delivered (dollars in thousands)

	Three Months Ended June 30,		Increase (Decrease)	
	2013	2012	Amount	%
New homes delivered	91	19	72	379%
Home sales revenue	$ 47,457	$ 7,736	$ 39,721	513%
Average sales price of homes delivered	$ 522	$ 407	$ 115	28%

New home deliveries increased by 72, or 379%, to 91 during the three months ended June 30, 2013 from 19 during the prior year period. The increase in new home deliveries was primarily attributable to the increase in net new home orders and units in backlog due to the increase in the average number of selling communities. Home sales revenue increased $39.7 million, or 513%, to $47.5 million for the three months ended June 30, 2013 from $7.7 million for the prior year period. The increase was primarily attributable to: (i) an increase in revenue of $29.3 million due to a 379% increase in

Table of Contents

homes delivered to 91 for the three months ended June 30, 2013 from 19 for the prior year period, and (ii) an increase in revenues of $10.4 million related to an increase in average sales price of $115,000 per unit to $522,000 for the three months ended June 30, 2013 from $407,000 for the prior year period. The increase in the average sales price of homes delivered was attributable to a change in product mix from our new communities for the three months ended June 30, 2013.

Homebuilding (dollars in thousands)

	Three Months Ended June 30,			
	2013	%	2012	%
Home sales	$ 47,457	100.0%	$ 7,736	100.0%
Cost of home sales	38,318	80.7%	6,807	88.0%
Homebuilding gross margin	9,139	19.3%	929	12.0%
Add: interest in cost of home sales	502	1.0%	69	0.9%
Adjusted homebuilding gross margin[(1)]	$ 9,641	20.3%	$ 998	12.9%
Homebuilding gross margin percentage	19.3%		12.0%	
Adjusted homebuilding gross margin percentage[(1)]	20.3%		12.9%	

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

Homebuilding gross margin represents home sales revenue less cost of home sales. Cost of home sales increased $31.5 million, or 463%, to $38.3 million for the three months ended June 30, 2013 from $6.8 million for the prior year period. The increase was primarily due to a 379% increase in the number of homes delivered and the product mix of homes delivered from new communities in 2013. Our homebuilding gross margin percentage increased to 19.3% for the three months ended June 30, 2013 as compared to 12.0% for the prior year period, primarily due to the product mix of homes delivered from new communities in 2013.

Excluding interest in cost of home sales, adjusted homebuilding gross margin percentage was 20.3% for the three months ended June 30, 2013, compared to 12.9% for the prior year period. Adjusted homebuilding gross margin is a non-GAAP financial measure. We believe this information is meaningful as it isolates the impact that leverage has on homebuilding gross margin and permits investors to make better comparisons with our competitors, who adjust gross margins in a similar fashion. See the table above reconciling this non-GAAP financial measure to homebuilding gross margin, the nearest GAAP equivalent.

Fee Building (dollars in thousands)

	Three Months Ended June 30,			
	2013	%	2012	%
Home sales	$ 3,630	100.0%	$ 72	100.0%
Cost of home sales	3,395	93.5%	46	63.9%
Fee building gross margin	$ 235	6.5%	$ 26	36.1%

As of June 30, 2013, we had two construction management agreements to build 83 homes in Moorpark, California and 73 homes in Carpinteria, California. Fee building revenue, which was all recorded in Southern California, increased to $3.6 million for the three months ended June 30, 2013 from $72,000 for the prior year period. Fee building cost increased to $3.4 million for the three months ended June 30, 2013 from $46,000

for the prior year period. Fee building revenue and cost increased primarily due the two new fee building projects mentioned above, which generated fee building revenue and cost during the three months ended June 30, 2013 compared to the same period in the prior year in which there were minimal activity. Fee building gross margin represents the net fee income earned related to our fee building projects.

Table of Contents

Selling, General and Administrative Expense (dollars in thousands)

	Three Months Ended June 30,		As a Percentage of Home Sales Revenue	
	2013	2012	2013	2012
Sales and marketing	$ 1,791	$ 797	3.8%	10.3%
General and administrative (G&A)	4,108	1,473	8.7%	19.0%
Total sales and marketing and G&A	$ 5,899	$ 2,270	12.4%	29.3%

Sales and marketing expense increased $994,000, or 125%, to $1.8 million for the three months ended June 30, 2013 from $797,000 for the prior year period. The increase in sales and marketing expense was primarily attributable to a 48% increase in the average number of active selling communities and a 379% increase in the number of homes delivered for the three months ended June 30, 2013 compared to the prior year period. Sales and marketing expense was 3.8% and 10.3% of home sales revenue for the three months June 30, 2013 and 2012, respectively.

General and administrative expenses increased $2.6 million, or 179%, to $4.1 million for the three months ended June 30, 2013 from $1.5 million for the prior year. The increase was primarily attributed to (i) an increase of $1.3 million in our compensation-related expenses resulting largely from an 86% increase in our office headcount to 54 employees as of June 30, 2013 compared to 29 as of June 30, 2012, (ii) an increase of $401,000 in stock-based compensation due to option and restricted share unit awards granted in 2013, and (iii) an increase of $796,000 in insurance, outside services, rent and office related costs and other professional fees related to costs of being a new public company and to support our growth. Our general and administrative expense as a percentage of home sales revenue was 8.7% and 19.0% for the three months ended June 30, 2013 and 2012, respectively.

Total sales and marketing and G&A expenses (SG&A) increased $3.6 million, or 160%, to $5.9 million for the three months ended June 30, 2013 from $2.3 million in the prior year period. Total SG&A expense was 12.4% and 29.3% of home sales revenue for the three months ended June 30, 2013 and 2012, respectively.

Other Income (Expense), Net

Other income (expense), net, increased to $89,000 of other income for the three months ended June 30, 2013 compared to a ($2,000) of expense for the prior year period. The change was primarily due to increased interest and dividend income as a result of higher cash, cash equivalents and marketable securities balances due to the net cash proceeds received from our IPO in January of 2013.

Other Items

Interest, which was incurred principally to finance land acquisitions, land development and home construction, totaled $579,000 and $475,000 for the three months ended June 30, 2013 and 2012, respectively, all of which was capitalized to real estate inventory. The increase in interest incurred during the three months ended June 30, 2013 as compared to the prior year was primarily attributable to our increase in outstanding debt, which was the result of the increase in the number of active projects and the growth in our real estate inventory.

Income Tax

For the three months ended June 30, 2013, we have recorded a tax provision of $1.5 million based on an effective tax rate of 42%. The Company reorganized from a Delaware limited liability company into a Delaware corporation during the first quarter of 2013, therefore there was no tax provision recorded for the three months ended June 30, 2012.

Net Income (Loss)

As a result of the foregoing factors, net income for the three months ended June 30, 2013 was $2.1 million compared to net loss for the three months ended June 30, 2012 of $(1.3) million.

Table of Contents

Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012

Net New Home Orders (dollars in thousands)

	Six Months Ended June 30,		Increase (Decrease)	
	2013	2012	Amount	%
Net new home orders	254	56	198	354%
Cancellation rate	7%	16%	(9)%	(56)%
Average selling communities	6.8	4.1	2.7	66%

Net new home orders for the six months ended June 30, 2013 increased 354% to 254, compared to 56 during the prior year period. Our overall absorption rate (the rate at which home orders are contracted, net of cancellations) increased for the six months ended June 30, 2013 to 37.4 per average selling community (6.23 monthly), compared to 13.7 per average selling community (2.28 monthly) during the prior year period. Our cancellation rate of buyers for our owned projects who contracted to buy a home but did not close escrow (as a percentage of overall orders) was 7% for the six months ended June 30, 2013 as compared to 16% during the prior year period. We experienced substantial order growth due to an increase in our average selling community count and the improving housing conditions and market acceptance of our well located new communities. Our average number of selling communities increased by 2.7 communities to 6.8 for the six months ended June 30, 2013, from 4.1 for the six months ended June 30, 2012 due to the opening of six new communities, offset by taking final orders and closing three communities. The increase in net new home orders positively impacted our number of homes in backlog, which is discussed below. We expect that our net new home orders and backlog increases will have a positive impact on revenues and cash flow in future periods.

Home Sales Revenue and New Homes Delivered (dollars in thousands)

	Six Months Ended June 30,		Increase (Decrease)	
	2013	2012	Amount	%
New homes delivered	139	30	109	363%
Home sales revenue	$ 71,314	$ 12,324	$ 58,990	479%
Average sales price of homes delivered	$ 513	$ 411	$ 102	25%

New home deliveries increased by 109, or 363%, to 139 during the six months ended June 30, 2013 from 30 during the prior year period. The increase in new home deliveries was primarily attributable to the increase in net new home orders and units in backlog due to the increase in the average number of selling communities. Home sales revenue increased $59.0 million or 479%, to $71.3 million for the six months ended June 30, 2013 from $12.3 million for the prior year period. The increase was primarily attributable to: (i) an increase in revenue of $44.8 million due to a 363% increase in homes delivered to 139 for the six months ended June 30, 2013 from 30 for the prior year period, and (ii) an increase in revenues of $14.2 million related to an increase in average sales price of $102,000 per unit to $513,000 for the six months ended June 30, 2013 from $411,000 for the prior year period. The increase in the average sales price of homes delivered was attributable to a change in product mix from our new communities for the six months ended June 30, 2013.

Homebuilding (dollars in thousands)

	Six Months Ended June 30,			
	2013	**%**	**2012**	**%**
Home sales	$ 71,314	100.0%	$ 12,324	100.0%
Cost of home sales	57,767	81.0%	10,879	88.3%
Homebuilding gross margin	13,547	19.0%	1,445	11.7%
Add: interest in cost of home sales	758	1.1%	126	1.0%
Adjusted homebuilding gross margin[1]	$ 14,305	20.1%	$ 1,571	12.7%
Homebuilding gross margin percentage	19.0%		11.7%	
Adjusted homebuilding gross margin percentage[1]	20.1%		12.7%	

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

Homebuilding gross margin represents home sales revenue less cost of home sales. Cost of home sales increased $46.9 million, or 431%, to $57.8 million for the six months ended June 30, 2013 from $10.9 million for the prior year period. The increase was primarily due to a 363% increase in the number of homes delivered and the product mix of homes delivered from new communities in 2013. Our homebuilding gross margin percentage increased to 19.0% for the six months ended June 30, 2013 as compared to 11.7% for the prior year period, primarily due to the product mix of homes delivered from new communities in 2013.

Excluding interest in cost of home sales, adjusted homebuilding gross margin percentage was 20.1% for the six months ended June 30, 2013, compared to 12.7% for the prior year period. Adjusted homebuilding gross margin is a non-GAAP financial measure. We believe this information is meaningful as it isolates the impact that leverage has on homebuilding gross margin and permits investors to make better comparisons with our competitors, who adjust gross margins in a similar fashion. See the table above reconciling this non-GAAP financial measure to homebuilding gross margin, the nearest GAAP equivalent.

Fee Building (dollars in thousands)

	Six Months Ended June 30,			
	2013	**%**	**2012**	**%**
Home sales	$ 7,661	100.0%	$ 137	100.0%
Cost of home sales	7,020	91.6%	111	81.0%
Fee building gross margin	$ 641	8.4%	$ 26	19.0%

As of June 30, 2013, we had two construction management agreements to build 83 homes in Moorpark, California and 73 homes in Carpinteria, California. Fee building revenue, which was all recorded in Southern California, increased to $7.7 million for the six months ended June 30, 2013 from $137,000 for the prior year period. Fee building cost increased to $7.0 million for the six months ended June 30, 2013 from $111,000 for the prior year period. Fee building revenue and cost increased primarily due the two new fee building projects mentioned above, which generated fee building revenue and cost during the six months ended June 30, 2013 compared to the same period in the prior year in which there was minimal fee building activity. Fee building gross margin represents the net fee income earned related to our fee building projects.

- 22 -

Table of Contents

Selling, General and Administrative Expense (dollars in thousands)

	Six Months Ended June 30,		As a Percentage of Home Sales Revenue	
	2013	2012	2013	2012
Sales and marketing	$ 3,121	$ 1,290	4.4%	10.5%
General and administrative (G&A)	7,421	2,651	10.4%	21.5%
Total sales and marketing and G&A	$ 10,542	$ 3,941	14.8%	32.0%

Sales and marketing expense increased $1.8 million, or 142%, to $3.1 million for the six months ended June 30, 2013 from $1.3 million for the prior year period. The increase in sales and marketing expense was primarily attributable to a 66% increase in the average number of active selling communities and a 363% increase in the number of homes delivered for the six months ended June 30, 2013 compared to the prior year period. Sales and marketing expense was 4.4% and 10.5% of home sales revenue for the six months June 30, 2013 and 2012, respectively.

General and administrative expenses increased $4.8 million, or 180%, to $7.4 million for the six months ended June 30, 2013 from $2.6 million for the prior year. The increase was primarily attributed to (i) an increase of $2.8 million in our compensation-related expenses resulting largely from a 86% increase in our office headcount to 54 employees as of June 30, 2013 compared to 29 as of June 30, 2012, (ii) an increase of $612,000 in stock-based compensation due to option and restricted share unit awards granted during 2013, and (iii) an increase of $1.2 million in insurance, outside services, rent and office related costs and other professional fees related to costs of being a new public company and to support our growth. Our general and administrative expense as a percentage of home sales revenue was 10.4% and 21.5% for the six months ended June 30, 2013 and 2012, respectively.

Total sales and marketing and G&A expenses (SG&A) increased $6.6 million, or 167%, to $10.5 million for the six months ended June 30, 2013 from $3.9 million in the prior year period. Total SG&A expense was 14.8% and 32.0% of home sales revenue for the six months ended June 30, 2013 and 2012, respectively. We expect that our SG&A expense as a percentage of home sales revenue will continue to decrease during the balance of 2013 as we generate increased home sales revenue from higher new home deliveries as a result of the growth in our community count and the conversion of our backlog.

Other Income, Net

Other income, net, increased to $261,000 for the six months ended June 30, 2013 compared to $10,000 for the prior year period. The change was primarily due to increased interest and dividend income as a result of higher cash, cash equivalents and marketable securities balances due to the net cash proceeds received from our IPO in January 2013.

Other Items

Interest, which was incurred principally to finance land acquisitions, land development and home construction, totaled $1.3 million and $647,000 for the six months ended June 30, 2013 and 2012, respectively, all of which was capitalized to real estate inventory. The increase in interest incurred during the six months ended June 30, 2013 as compared to the prior year was primarily attributable to our increase in outstanding debt, which was the result of the increase in the number of active projects and the growth in our real estate inventory.

Income Tax

During 2012 and for the first 30 calendar days of 2013, the Company was a Delaware limited liability company which was treated as partnership for income tax purposes and was subject to certain minimal taxes and fees; however, income taxes on taxable income or losses realized by the Company were the obligation of the members. We have concluded that there were no significant uncertain tax positions requiring recognition in its financial statements, nor have we been assessed interest or penalties by any major tax jurisdictions related to the first 30 calendar days of 2013 or fiscal 2012.

On January 30, 2013, the Company reorganized from a Delaware limited liability company into a Delaware corporation and was renamed TRI Pointe Homes, Inc. For the six months ended June 30, 2013, we have recorded a tax provision of $1.6 million based on an effective tax rate of 42% on the pretax income generated for the period from January 31, 2013 to June 30, 2013.

Table of Contents

Net Income (Loss)

As a result of the foregoing factors, net income for the six months ended June 30, 2013 was $2.3 million compared to net loss for the six months ended June 30, 2012 of $(2.5) million.

Lots Owned and Controlled

The table below summarizes our lots owned and controlled as of the dates presented:

	June,		Increase (Decrease)	
	2013	2012	Amount	%
Lots Owned				
Southern California	713	362	351	97%
Northern California	759	170	589	346%
Colorado	57		57	N/A
Total	1,529	532	997	187%
Lots Controlled(1)				
Southern California	374	236	138	58%
Northern California	327	305	22	7%
Colorado	452		452	N/A
Total	1,153	541	612	113%
Total Lots Owned and Controlled(1)	2,682	1,073	1,609	150%

(1) Includes lots that are under a land option contract, purchase contract or a non-binding letter of intent. With respect to lots under a non-binding letter of intent, there can be no assurance that we will enter into binding agreements or as to the terms thereof.

Liquidity and Capital Resources

Overview

Our principal uses of capital for the three and six months ended June 30, 2013 were operating expenses, land purchases, land development, home construction and the payment of routine liabilities. We used funds generated by our recently completed IPO, operations and available borrowings to meet our short-term working capital requirements. We remain focused on generating positive margins in our homebuilding operations and acquiring desirable land positions in order to maintain a strong balance sheet and keep us poised for growth. As of June 30, 2013, we had $77.4 million of cash, cash equivalents and marketable securities, a $57.6 million increase from December 31, 2012, primarily as a result the proceeds from our IPO that was completed on January 31, 2013. We believe we have sufficient cash and sources of financing for at least twelve months.

Secured Revolving Credit Facilities

As of June 30, 2013, we were party to a secured revolving credit facility which has a maximum loan commitment of $30 million. Our secured revolving credit facility has an initial maturity date of April 19, 2014 and a final maturity date of April 19, 2015. We may borrow under our secured revolving credit facility in the ordinary course of business to fund our operations, including our land development and homebuilding activities. Interest on our secured revolving credit facility is paid monthly at a rate based on LIBOR or prime rate pricing, subject to a minimum interest rate floor. During the three months ended June 30, 2013, the interest rate floor was lowered from 5.0% to 3.75%. As of June 30, 2013, there was no outstanding principal balance and we had $28.1 of availability under our secured revolving credit facility after considering the borrowing base provisions and outstanding letters of credit.

In July, 2013, we entered into a secured, three-year revolving credit facility with the potential for a one-year extension of the term of the loan, subject to specified conditions and payment of an extension fee. The facility provides for a maximum loan commitment of $125 million. Borrowings under the facility are secured by a first priority lien on borrowing base properties and will be subject to, among other things, a borrowing base formula. Subject to the satisfaction of the conditions to advances set forth in the facility, we may borrow solely for the payment or reimbursement of costs or return of capital related to: (a) land acquisition, development and construction of single-family residential lots and homes on and with respect to borrowing base properties (as defined in the facility), or (b) paying off any existing financing secured by the initial borrowing base properties. The interest rate on borrowings will be at a rate based on LIBOR plus an applicable margin, ranging from 250 to 370 basis points depending on our leverage ratio.

Table of Contents

Secured Acquisition and Development Loans and Construction Loans

As of June 30, 2013, we were party to several secured acquisition and development loan agreements to purchase and develop land parcels. In addition, we were party to several secured construction loan agreements for the construction of our model and production homes. As of June 30, 2013, the total aggregate commitment of our acquisition and development loans and our construction loans was $103.8 million, of which $62.6 million was outstanding. The acquisition and development loans will be repaid as lots are released from the loans based upon a specific release price, as defined in each respective loan agreement. Our construction loans will be repaid with proceeds from home sales based upon a specific release price, as defined in each respective loan agreement. These loans range in maturity between August 2013 and January 2016, including the six month extensions which are at our election (subject to certain conditions). The interest rate on certain loans were lowered during the three months ended June 30, 2013 and now bear interest at a rate based on applicable LIBOR or Prime Rate pricing options plus an applicable margin, with certain loans containing a minimum interest rate floor of 4.0%. As of June 30, 2013, the weighted average interest rate was 3.1% per annum.

Covenant Compliance

Under our secured revolving credit facility, our acquisition and development loans and our construction loans, we are required to comply with certain financial covenants, including but not limited to those set forth in the table below:

	Actual at June 30, 2013	Covenant Requirement at June 30, 2013
Financial Covenant		
Liquidity[1]	$ 105,513,000	$ 7,539,000
(Greater of $5.0 million or 10% of total liabilities)		
Tangible Net Worth	$ 307,048,000	$ 160,130,000
(Not less than $47.0 million plus 50% of annual net income and 50% of additional future capital contributions and net proceeds from equity offerings after December 31, 2011)		
Maximum Total Liabilities to Tangible Net Worth Ratio	0.25	<1.5
(Not in excess of 1.5:1.0)		

(1) Liquidity is defined as cash, cash equivalents and marketable securities on hand plus availability under our secured revolving credit facility.

As of June 30, 2013 and 2012, we were in compliance with all of these financial covenants.

The $125 million revolving credit facility that we entered into in July 2013, includes financial covenants requiring us to maintain on a quarterly basis: (a) a minimum tangible net worth (as defined) requirement of $200 million (which amount is subject to increase over time based on earnings from and after December 31, 2012 and proceeds from equity capital investments in the Company), (b) liquid assets (as defined) equal to or greater than $10 million, (c) a fixed charge coverage ratio (EBITDA to interest paid, as defined) of at least 1.60 to 1.00 (determined at the end of each fiscal quarter on a rolling four-quarters basis),(d) a leverage ratio (as defined) of less than 1.50 to 1.00, and (e) a ratio of land assets (as defined) to tangible net worth of less than 1.50 to 1.00. The foregoing covenants, as well as the borrowing base provisions, limit the amount we can borrow or keep outstanding under the facility.

Table of Contents

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

	June 30, 2013	December 31, 2012
Debt	$ 62,557	$ 57,368
Equity	307,568	149,153
Total capital	370,125	206,521
Ratio of debt-to-capital[1]	16.9%	27.8%
Debt	$ 62,557	$ 57,368
Less: cash, cash equivalents and marketable securities	(77,374)	(19,824)
Net debt		37,544
Equity	307,568	149,153
Total capital	$ 307,568	$ 186,697
Ratio of net debt-to-capital[2]	N/A	20.1%

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

(2) The ratio of net debt-to-capital is computed as the quotient obtained by dividing net debt (which is debt less cash, cash equivalents and marketable securities) by the sum of net debt plus equity. The most directly comparable GAAP financial measure is the ratio of debt-to-capital. We believe the ratio of net debt-to-capital is a relevant financial measure for investors to understand the leverage employed in our operations and as an indicator of our ability to obtain financing. See the table above reconciling this non-GAAP financial measure to the ratio of debt-to-capital.

Cash Flows Six Months Ended June 30, 2013 to Six Months Ended June 30, 2012

For the six months ended June 30, 2013 as compared to the six months ended June 30, 2012, the comparison of cash flows is as follows:

Net cash used in operating activities increased to $102.6 million in the first six months of 2013 from a use of $49.3 million in 2012. The change was primarily a result of (i) an increase in real estate inventories of $107.7 million in 2013 compared to an increase of $45.5 million in 2012, primarily driven by the increase in land, land development and homes under construction, offset by the increase in home closings in 2013 as compared to 2012 and (ii) net income of $2.3 million in 2013 compared to a net loss of $(2.5) million in 2012.

Net cash used in investing activities was $40.3 million in the first six months of 2013 as compared to $61,000 in 2012. The change was primarily the result of net purchases of marketable securities in 2013.

Net cash provided by financing activities increased to $160.6 million in the first six months of 2013 from $47.2 million in 2012. The change was primarily a result of (i) an increase in the net proceeds from the issuance of common stock of $155.4 million as a result of the completion of the Company s IPO in January 2013 compared to $14.0 million in 2012 related to a capital contribution from a member, offset by a financial advisory fee payment of $490,000 and (ii) an increase in net borrowings on notes payable of $5.2 million in 2013 as compared to an increase of $33.7 million in 2012.

Off-Balance Sheet Arrangements and Contractual Obligations

In the ordinary course of business, we enter into land option contracts in order to procure lots for the construction of our homes. We are subject to customary obligations associated with entering into contracts for the purchase of land and improved lots. These purchase contracts typically require a cash deposit and the purchase of properties under these contracts is generally contingent upon satisfaction of certain requirements by the sellers, including obtaining applicable property and development entitlements. We also utilize option contracts with land sellers as a method of acquiring land in staged takedowns, to help us manage the financial and market risk associated with land holdings, and to reduce the use of funds from our corporate financing sources. Option contracts generally require a non-refundable deposit for the right to acquire lots over a specified period of time at pre-determined prices. We generally have the right at our discretion to terminate our obligations under both purchase contracts and option contracts by forfeiting our cash deposit with no further financial responsibility to the land seller. As of June 30, 2013, we had $11.7 million of non-refundable cash deposits pertaining to land option contracts and purchase contracts for 1,153 lots with an aggregate remaining purchase price of approximately $181.0 million (net of deposits).

Table of Contents

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

As of June 30, 2013, there was no outstanding principal balance on our secured revolving credit facility and we had $28.1 million of availability under our secured revolving credit facility after considering the borrowing base provisions and outstanding letters of credit. As of June 30, 2013, we also were party to several secured acquisition and development loan agreements to purchase and develop land parcels. In addition, we were party to several secured construction loan agreements for the construction of our model and production homes. As of June 30, 2013, the total aggregate commitments of our acquisition and development loans and our construction loans were $103.8 million, of which $62.6 million was outstanding. We expect that the loan agreements generally will be satisfied in the ordinary course of business and in accordance with applicable contractual terms.

Inflation

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

Seasonality

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

Description of Projects and Communities under Development

Our homebuilding projects usually take approximately 24 to 36 months to complete from the start of sales. The following table presents project information relating to each of our markets as of June 30, 2013 and includes information on current projects under development where we are building and selling homes for our own account and current projects under development where we are active as a fee builder.

Table of Contents

County, Project, City	Year of First Delivery(1)	Total Number of Homes(2)	Cumulative Homes Delivered as of June 30, 2013	Lots as of June, 2013(3)	Backlog as of June 30, 2013(4)(5)	Homes Closed for the Six Months Ended June 30, 2013	Sales Price Range (in 000 s)(6)	
Owned Projects								
Southern California								
Orange County:								
Brio, La Habra	2013	91		91	58		$497	$550
Rancho Mission Viejo	2013	105		105			$635	$700
Truewind, Huntington Beach	2014	49		49			$1,075	$1,200
San Diego County:								
Candera, San Marcos	2012	58	57	1	1	38	$310	$490
Altana, San Diego	2013	45		45			$625	$690
Riverside County:								
Topazridge, Riverside	2012	68	32	36	28	18	$433	$497
Sagebluff, Riverside	2012	47	47			24	$362	$380
Paseo del Sol, Temecula	2014	96		96			$270	$295
Paseo del Sol II, Temecula	2014	90		90			$254	$295
Los Angeles County:								
Los Arboles, Simi Valley	2012	43	39	4	4	15	$387	$422
Tamarind Lane, Azusa	2012	62	24	38	32	14	$475	$487
Tamarind Lane II, Azusa	2014	26		26			$475	$487
Avenswood, Azusa	2013	66		66			$631	$680
Woodson, Los Angeles	2014	66		66			$925	$1,025
Southern California Total		**912**	**199**	**713**	**123**	**109**		
Northern California								
Contra Costa County:								
Barrington, Brentwood	2014	410		410			$460	$600
Santa Clara County:								
Chantrea, San Jose	2012	38	25	13	8	10	$1,245	$1,515
Ironhorse South, Morgan Hill	2012	37	27	10	1	11	$515	$781
Ironhorse North, Morgan Hill	2013	32	9	23	23	9	$565	$745
Avellino, Mountain View	2013	59		59			$949	$1,079
San Mateo County:								
Amelia, San Mateo	2013	63		63	26		$770	$1,125
Canterbury, San Mateo	2014	76		40			$750	$965
Solano County:								
Southtown, Vacaville	2014	141		141			$415	$460
Northern California Total		**856**	**61**	**759**	**58**	**30**		
Colorado								
Douglas County:								
Terrain, Castle Rock	2013	149		57	2		$290	$347
Colorado Total		**149**		**57**	**2**			
Company Total Owned Projects		**1,917**	**260**	**1,529**	**183**	**139**		
Fee Building Projects								
Southern California								
Orange County:								
San Marino, Irvine(7)	2011	39	39			3	N/A	

Ventura County:								
Meridian Hills, Moorpark[8]	2013	83		83			$620	$775
Lagunitas, Carpinteria[8]	2012	73	36	37	26	26	$466	$890
Southern California Total		**195**	**75**	**120**	**26**	**29**		
Company Total Fee Building Projects		**195**	**75**	**120**	**26**	**29**		
Grand Totals:								
Owned Projects		1,917	260	1,529	183	139		
Fee Building Projects		195	75	120	26	29		
		2,112	**335**	**1,649**	**209**	**168**		

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

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

(3) Owned lots and fee building lots as of June 30, 2013 include owned lots and fee building lots in backlog as of June 30, 2013.

(4) Backlog consists of homes under sales contracts that had not yet closed, and there can be no assurance that closings of sold homes will occur.

Table of Contents

(5) Of the total homes subject to pending sales contracts that have not closed as of June 30, 2013, 178 homes have completed or are under construction while 5 homes have not started construction on our owned projects and 15 homes have completed or are under construction while 11 homes have not started construction on our fee building projects.

(6) Sales price range reflects base price only and excludes any lot premium, buyer incentives and buyer selected options, which may vary from project to project. Sales prices for homes required to be sold pursuant to affordable housing requirements are excluded from sales price range.

(7) We entered into a construction management agreement to only build homes in this community for an independent third-party property owner. This project was marketed under the third-party owner s name.

(8) We entered into a construction management agreement to build, sell and market homes in this community for an independent third-party property owner. This project is marketed under the TRI Pointe Homes brand name.

Critical Accounting Policies

There have been no significant changes to our critical accounting policies from those described in Note 1 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013.

Recently Issued Accounting Standards

See Note 1 to the accompanying notes to unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks related to fluctuations in interest rates on our outstanding variable rate debt. We did not utilize swaps, forward or option contracts on interest rates or commodities, or other types of derivative financial instruments as of or during the three and six months ended June 30, 2013. We have not entered into and currently do not hold derivatives for trading or speculative purposes. Many of the statements contained in this section are forward looking and should be read in conjunction with our disclosures under the heading Cautionary Note Concerning Forward-Looking Statements.

Based on the current interest rate management policies we have in place with respect to our outstanding debt, we do not believe that the future market rate risks related to the above securities will have a material adverse impact on our financial position, results of operations or liquidity.

Item 4. Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e), as of the end of the period covered by this Form 10-Q (the Evaluation Date). Based on such evaluation, management has concluded that our disclosure controls and procedures were effective as of the Evaluation Date. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide a reasonable level of assurance of reaching our desired disclosure control objectives.

During the fiscal quarter covered by this Form 10-Q, there has not been any change in our internal control over financial reporting that has materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 5. Other Information

On August 7, 2013, the Company s Board of Directors approved an amendment to Section 4.2 of the Company s Bylaws to clarify that any officer chosen by another officer pursuant to Section 4.10 of the Bylaws may be removed with or without cause at any time by that officer, but such removal will be without prejudice to the contractual rights of such officer, if any, with the Company. The foregoing description of the amendment is qualified in its entirety by reference to the complete text of the Amended and Restated Bylaws, a copy of which is filed as Exhibit 3.2 to this Quarterly Report on Form 10-Q and is incorporated herein by reference.

Item 6. Exhibits

Exhibit Number	*Exhibit Description*
2.1	Plan of Conversion of TRI Pointe Homes, LLC
3.1	Amended and Restated Certificate of Incorporation of TRI Pointe Homes, Inc. (incorporated by reference to Exhibit 3.1 of the Company s Annual Report on Form 10-K (filed March 28, 2013))
3.2	Amended and Restated Bylaws of TRI Pointe Homes, Inc.
4.1	Specimen Common Stock Certificate of TRI Pointe Homes, Inc. (incorporated by reference to Exhibit 4.1 of the Company s Registration Statement on Form S-1 (filed Dec. 21, 2012))
4.2	Investor Rights Agreement between TRI Pointe Homes, Inc. and VIII/TPC Holdings, L.L.C.
10.1	Revolving credit agreement, dated July 18, 2013, among TRI Pointe Homes, Inc. and U.S. Bank National Association (incorporated by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K (filed July 25, 2013))
10.2	Registration Rights Agreement among TRI Pointe Homes, Inc. and the members of TRI Pointe Homes, LLC.
31.1	Chief Executive Officer Section 302 Certification of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer Section 302 Certification of the Sarbanes-Oxley Act of 2002
32.1	Chief Executive Officer Section 906 Certification of the Sarbanes-Oxley Act of 2002
32.2	Chief Financial Officer Section 906 Certification of the Sarbanes-Oxley Act of 2002
101	The following materials from TRI Pointe Homes, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statement of Equity, (v) Consolidated Statement of Cash Flows, and (vi) Condensed Notes to Consolidated Financial Statements.

Table of Contents

SIGNATURES

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

TRI Pointe Homes, Inc.

By: /s/ Douglas F. Bauer
Douglas F. Bauer
Chief Executive Officer

Date: August 13, 2013