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

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

FORM 10-Q

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

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 (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
Registrant’s shares of common stock outstanding at October 14, 2016: 160,064,678

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EXPLANATORY NOTE

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

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

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

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

TRI POINTE GROUP, INC.
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September 30, 2016

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2016 (unaudited)	December 31, 2015
Assets		
Cash and cash equivalents	$128,715	$214,485
Receivables	35,321	43,710
Real estate inventories	2,969,148	2,519,273
Investments in unconsolidated entities	17,205	18,999
Goodwill and other intangible assets, net	161,629	162,029
Deferred tax assets, net	111,887	130,657
Other assets	65,998	48,918
Total assets	$3,489,903	$3,138,071
Liabilities		
Accounts payable	$77,667	$64,840
Accrued expenses and other liabilities	219,396	216,263
Unsecured revolving credit facility	200,000	299,392
Seller financed loans	17,758	2,434
Senior notes, net	1,166,724	868,679
Total liabilities	1,681,545	1,451,608
Commitments and contingencies (Note 14)		
Equity		
Stockholders’ Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized; no shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	—	—
Common stock, $0.01 par value, 500,000,000 shares authorized; 160,064,678 and 161,813,750 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	1,601	1,618
Additional paid-in capital	894,681	911,197
Retained earnings	889,178	751,868
Total stockholders’ equity	1,785,460	1,664,683
Noncontrolling interests	22,898	21,780
Total equity	1,808,358	1,686,463
Total liabilities and equity	$3,489,903	$3,138,071

See accompanying condensed notes to the unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Homebuilding:				
Home sales revenue	$578,653	$ 642,352	$1,558,633	$1,443,855
Land and lot sales revenue	2,535	4,876	70,204	74,366
Other operations revenue	606	613	1,790	2,213
Total revenues	581,794	647,841	1,630,627	1,520,434
Cost of home sales	462,323	507,543	1,219,560	1,149,191
Cost of land and lot sales	1,734	3,451	16,973	17,324
Other operations expense	575	570	1,724	1,704
Sales and marketing	31,852	30,038	90,621	78,958
General and administrative	31,150	26,736	89,815	83,150
Restructuring charges	128	2,010	478	2,730
Homebuilding income from operations	54,032	77,493	211,456	187,377
Equity in (loss) income of unconsolidated entities	(20)	(150)	181	(82)
Other income, net	21	47	287	272
Homebuilding income before income taxes	54,033	77,390	211,924	187,567
Financial Services:				
Revenues	235	300	762	482
Expenses	72	47	183	131
Equity in income (loss) of unconsolidated entities	1,247	147	3,246	(2)
Financial services income before income taxes	1,410	400	3,825	349
Income before income taxes	55,443	77,790	215,749	187,916
Provision for income taxes	(20,298)	(28,021)	(77,701)	(66,088)
Net income	35,145	49,769	138,048	121,828
Net (income) loss attributable to noncontrolling interests	(311)	393	(738)	(1,439)
Net income available to common stockholders	$34,834	$ 50,162	$137,310	$120,389
Earnings per share				
Basic	$0.22	$ 0.31	$0.85	$0.74
Diluted	$0.22	$ 0.31	$0.85	$0.74
Weighted average shares outstanding				
Basic	160,614,055	161,772,893	161,456,520	161,651,177
Diluted	161,267,509	162,366,744	161,916,352	162,299,282

See accompanying condensed notes to the unaudited consolidated financial statements.

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

	Number of Shares of Common Stock (Note 1)	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2014	161,355,490	$ 1,614	$ 906,159	$ 546,407	$ 1,454,180	$ 18,296	$ 1,472,476
Net income	—	—	—	205,461	205,461	1,720	207,181
Adjustment to capital contribution by Weyerhaeuser, net	—	—	(6,747)	—	(6,747)	—	(6,747)
Shares issued under share-based awards	458,260	4	1,612	—	1,616	—	1,616
Excess tax benefit of share-based awards, net	—	—	428	—	428	—	428
Minimum tax withholding paid on behalf of employees for restricted stock units	—	—	(2,190)	—	(2,190)	—	(2,190)
Stock-based compensation expense	—	—	11,935	—	11,935	—	11,935
Distributions to noncontrolling interests, net	—	—	—	—	—	(3,833)	(3,833)
Net effect of consolidations, de-consolidations and other transactions	—	—	—	—	—	5,597	5,597
Balance at December 31, 2015	161,813,750	1,618	911,197	751,868	1,664,683	21,780	1,686,463
Net income	—	—	—	137,310	137,310	738	138,048
Shares issued under share-based awards	356,449	4	457	—	461	—	461
Excess tax deficit of share-based awards, net	—	—	(170)	—	(170)	—	(170)
Minimum tax withholding paid on behalf of employees for restricted stock units	—	—	(1,359)	—	(1,359)	—	(1,359)
Stock-based compensation expense	—	—	9,648	—	9,648	—	9,648
Share repurchases	(2,105,521)	(21)	(25,092)	—	(25,113)	—	(25,113)
Distributions to noncontrolling interests, net	—	—	—	—	—	(3,104)	(3,104)
Net effect of consolidations, de-consolidations and other	—	—	—	—	—	3,484	3,484

transactions							
Balance at September 30, 2016	160,064,678	$ 1,601	$ 894,681	$ 889,178	$ 1,785,460	$ 22,898	$ 1,808,358

See accompanying condensed notes to the unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$138,048	$121,828
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	2,322	5,416
Equity in (income) loss of unconsolidated entities, net	(3,427)	84
Deferred income taxes, net	18,770	16,342
Amortization of stock-based compensation	9,648	8,536
Charges for impairments and lot option abandonments	678	1,903
Excess tax deficit of share-based awards	(170)	—
Changes in assets and liabilities:		
Real estate inventories	(442,671)	(305,889)
Receivables	8,549	(12,803)
Other assets	(16,806)	25,490
Accounts payable	12,827	(1,113)
Accrued expenses and other liabilities	5,876	195
Returns on investments in unconsolidated entities, net	5,049	—
Net cash used in operating activities	(261,307)	(140,011)
Cash flows from investing activities:		
Purchases of property and equipment	(2,056)	(1,059)
Investments in unconsolidated entities	(32)	(1,458)
Distributions from unconsolidated entities	—	319
Net cash used in investing activities	(2,088)	(2,198)
Cash flows from financing activities:		
Borrowings from debt	491,069	140,000
Repayment of debt	(276,826)	(57,713)
Debt issuance costs	(5,061)	(2,688)
Net repayments of debt held by variable interest entities	(2,442)	(5,927)
Contributions from noncontrolling interests	1,955	4,281
Distributions to noncontrolling interests	(5,059)	(9,198)
Proceeds from issuance of common stock under share-based awards	461	1,616
Excess tax benefit of share-based awards	—	392
Minimum tax withholding paid on behalf of employees for share-based awards	(1,359)	(2,190)
Share repurchases	(25,113)	—
Net cash provided by financing activities	177,625	68,573
Net decrease in cash and cash equivalents	(85,770)	(73,636)
Cash and cash equivalents - beginning of period	214,485	170,629
Cash and cash equivalents - end of period	$128,715	$96,993

See accompanying condensed notes to the unaudited consolidated financial statements.

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

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

Organization

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

Formation of TRI Pointe Group

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

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

Basis of Presentation

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

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, as well as other entities in which the Company has a controlling interest and variable interest entities ("VIEs") in which the Company is the primary beneficiary. The noncontrolling interests as of September 30, 2016 and December 31, 2015 represent the outside owners' interests in the Company's consolidated entities and the net equity of the VIE owners. All significant intercompany accounts have been eliminated upon consolidation. In the opinion of management, all adjustments consisting of normal recurring adjustments, necessary for a fair presentation with respect to interim financial statements, have been included.

Use of Estimates

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

Reclassifications

Certain amounts in our consolidated financial statements for prior years have been reclassified to conform to the current period presentation, including the Company's change in reportable segments to include the addition of our financial services operation in the fourth quarter of 2015. These reclassifications had no material impact on the Company's condensed consolidated financial statements.

Recently Issued Accounting Standards

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

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

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

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, ("ASU 2015-17"), Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, which requires deferred tax liabilities and assets be classified as noncurrent in a classified statement of position. ASU 2015-17 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The adoption of ASU 2015-17 is not expected to have a material effect on our consolidated financial statements.

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

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

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In August 2016, the FASB issued Accounting Standards Update No. 2016-15, ("ASU 2016-15"), Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which provides guidance on how certain cash receipts and cash payments are to be presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted. We are currently evaluating the impact that adoption of ASU 2016-15 may have on our consolidated financial statements and disclosures.

2. Restructuring

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Employee-related charges	$5	$1,433	$30	$1,568
Lease termination charges	123	577	448	1,162
Total	$128	$2,010	$478	$2,730

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Accrued employee-related charges, beginning of period	$100	$109	$220	$3,844
Current year charges	5	1,433	30	1,568
Payments	(20)	(1,087)	(165)	(4,957)
Accrued employee-related charges, end of period	$85	$455	$85	$455

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Accrued lease termination charges, beginning of period	$447	$644	$767	$1,394
Current year charges	123	577	448	1,162
Payments	(352)	(705)	(997)	(2,040)
Accrued lease termination charges, end of period	$218	$516	$218	$516

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

3. Segment Information

We operate two principal businesses: homebuilding and financial services.

Our homebuilding operations consist of six homebuilding brands that acquire and develop land and construct and sell single-family detached and attached homes. In accordance with ASC Topic 280, Segment Reporting, in determining the most appropriate reportable segments, we considered similar economic and other characteristics, including product types, average selling prices, gross profits, production processes, suppliers, subcontractors, regulatory environments, land acquisition results, and underlying demand and supply. Based upon the above factors, our homebuilding operations are comprised of the following six reportable segments: Maracay Homes, consisting of operations in Arizona; Pardee Homes, consisting of operations in California and Nevada; Quadrant Homes, consisting of operations in Washington; Trendmaker Homes, consisting of operations in Texas; TRI Pointe Homes, consisting of operations in California and Colorado; and Winchester Homes, consisting of operations in Maryland and Virginia.

Our financial services operation ("TRI Pointe Solutions") is a reportable segment and is comprised of mortgage financing operations ("TRI Pointe Connect") and title services operations ("TRI Pointe Assurance"). While our homebuyers may obtain financing from any mortgage provider of their choice, TRI Pointe Connect, which was formed as a joint venture with an established mortgage lender, can act as a preferred mortgage broker to our homebuyers in all of the markets in which we operate, providing mortgage originations that help facilitate the sale and closing process as well as generate additional fee income for us. TRI Pointe Assurance provides title examinations for our homebuyers in our Trendmaker Homes and Winchester Homes brands. TRI Pointe Assurance is a wholly owned subsidiary of TRI Pointe and acts as a title agency for First American Title Insurance Company. We commenced our financial services operation in the fourth quarter of 2014.

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues				
Maracay Homes	$68,024	$50,505	$161,318	$116,556
Pardee Homes	188,148	172,957	547,311	424,680
Quadrant Homes	48,354	48,173	153,575	132,698
Trendmaker Homes	64,251	81,044	172,509	203,235
TRI Pointe Homes	167,769	224,244	452,553	461,654
Winchester Homes	45,248	70,918	143,361	181,611
Total homebuilding revenues	581,794	647,841	1,630,627	1,520,434
Financial services	235	300	762	482
Total	$582,029	$648,141	$1,631,389	$1,520,916
Income (loss) before income taxes				
Maracay Homes	$4,385	$3,687	$9,544	$5,820
Pardee Homes	37,508	39,776	165,718	121,112
Quadrant Homes	5,497	3,850	14,808	6,176
Trendmaker Homes	3,516	7,214	9,439	17,525
TRI Pointe Homes	11,723	29,561	34,651	55,295
Winchester Homes	1,692	1,557	6,345	7,948
Corporate	(10,288)	(8,255)	(28,581)	(26,309)
Total homebuilding income before income taxes	54,033	77,390	211,924	187,567
Financial services	1,410	400	3,825	349
Total	$55,443	$77,790	$215,749	$187,916

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

	September 30, 2016	December 31, 2015
Real estate inventories		
Maracay Homes	$252,094	$206,912
Pardee Homes	1,109,262	1,011,982
Quadrant Homes	217,430	190,038
Trendmaker Homes	221,201	199,398
TRI Pointe Homes	877,941	659,130
Winchester Homes	291,220	251,813
Total	$2,969,148	$2,519,273
Total assets		
Maracay Homes	$272,928	$227,857
Pardee Homes	1,182,282	1,089,586
Quadrant Homes	237,959	202,024
Trendmaker Homes	236,618	213,562
TRI Pointe Homes	1,047,975	832,423
Winchester Homes	314,069	278,374
Corporate	192,654	292,169
Total homebuilding assets	3,484,485	3,135,995
Financial services	5,418	2,076
Total	$3,489,903	$3,138,071

4. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Numerator:				
Net income available to common stockholders	$34,834	$ 50,162	$137,310	$ 120,389
Denominator:				
Basic weighted-average shares outstanding	160,614,056	161,772,893	161,456,520	161,651,177
Effect of dilutive shares:				
Stock options and unvested restricted stock units	653,454	593,851	459,832	648,105
Diluted weighted-average shares outstanding	161,267,510	162,366,744	161,916,352	162,299,282
Earnings per share				
Basic	$0.22	$ 0.31	$0.85	$ 0.74
Diluted	$0.22	$ 0.31	$0.85	$ 0.74
Antidilutive stock options and unvested restricted stock not included in diluted earnings per share	3,806,396	2,260,532	4,551,337	2,462,268

5. Receivables

Receivables consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Escrow proceeds and other accounts receivable, net	$ 25,619	$ 32,917
Warranty insurance receivable (Note 14)	9,702	10,493
Notes and contracts receivable	—	300
Total receivables	$ 35,321	$ 43,710

6. Real Estate Inventories

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

	September 30, 2016	December 31, 2015
Real estate inventories owned:		
Homes completed or under construction	$757,707	$575,076
Land under development	1,720,126	1,443,461
Land held for future development	298,841	295,241
Model homes	140,566	140,232
Total real estate inventories owned	2,917,240	2,454,010
Real estate inventories not owned:		
Land purchase and land option deposits	29,608	39,055
Consolidated inventory held by VIEs	22,300	26,208
Total real estate inventories not owned	51,908	65,263
Total real estate inventories	$2,969,148	$2,519,273

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 and lot option agreements as well as consolidated inventory held by variable interest entities. For further details, see Note 8, Variable Interest Entities.

In June of 2016, our Pardee Homes reporting segment sold two parcels, totaling 102 homebuilding lots, located in the Pacific Highlands Ranch community in San Diego, California. The land sold in these sales were classified as land under development and represented $61.6 million of land and lot sales revenue in the consolidated statements of operations for the nine months ended September 30, 2016.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest incurred	$18,601	$15,454	$50,030	$45,779
Interest capitalized	(18,601)	(15,454)	(50,030)	(45,779)
Interest expensed	$—	$—	$—	$—
Capitalized interest in beginning inventory	$151,347	$140,106	$140,311	$124,461
Interest capitalized as a cost of inventory	18,601	15,454	50,030	45,779
Interest previously capitalized as a cost of inventory,	(14,415)	(13,339)	(34,808)	(28,019)

included in cost of sales				
Capitalized interest in ending inventory	$155,533	$142,221	$155,533	$142,221

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 or cost of land and lot sales as related units or lots are delivered. Interest that is expensed as incurred is included in other income, net.

Real estate inventory impairments and land and lot option abandonments

Land and lot option abandonments and pre-acquisition charges were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Real estate inventory impairments	$—	$29	$—	$1,073
Land and lot option abandonments and pre-acquisition charges	389	336	678	830
Total	$389	$365	$678	$1,903

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

7. Investments in Unconsolidated Entities

As of September 30, 2016, we held equity investments in five active homebuilding partnerships or limited liability companies and one financial services limited liability company. Our participation in these entities may be as a developer, a builder, or an investment partner. Our ownership percentage varies from 7% to 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):

	September 30, 2016	December 31, 2015
Limited liability company interests	$ 13,946	$ 15,739
General partnership interests	3,259	3,260
Total	$ 17,205	$ 18,999

Unconsolidated Financial Information

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

Assets and liabilities of unconsolidated entities (in thousands):

	September 30, 2016	December 31, 2015
Assets		
Cash	$ 11,945	$ 18,641
Receivables	10,038	13,108
Real estate inventories	96,654	92,881
Other assets	1,065	1,180
Total assets	$ 119,702	$ 125,810
Liabilities and equity		
Accounts payable and other liabilities	$ 12,932	$ 14,443
Company’s equity	17,205	18,999
Outside interests' equity	89,565	92,368
Total liabilities and equity	$ 119,702	$ 125,810

Results of operations from unconsolidated entities (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net sales	$4,619	$ 1,217	$ 12,516	$ 2,670
Other operating expense	(2,913)	(1,479)	(8,067)	(4,020)
Other income (loss)	1	(263)	3	(256)
Net income (loss)	$ 1,707	$ (525)	$ 4,452	$ (1,606)
Company’s equity in income (loss) of unconsolidated entities	$ 1,227	$ (3)	$ 3,427	$ (84)

8. Variable Interest Entities

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

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

Creditors of the entities with which we have land and lot option agreements have no recourse against us. The maximum exposure to loss under our land and lot option agreements is 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.

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

	September 30, 2016			December 31, 2015		
	Deposits	Remaining Purchase Price	Consolidated Inventory Held by VIEs	Deposits	Remaining Purchase Price	Consolidated Inventory Held by VIEs
Consolidated VIEs	$600	$21,700	$ 22,300	$3,003	$23,239	$ 26,208
Unconsolidated VIEs	2,170	58,135	N/A	11,615	74,590	N/A
Other land option agreements	27,438	365,224	N/A	27,440	279,612	N/A
Total	$30,208	$445,059	$ 22,300	$42,058	$377,441	$ 26,208

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

In addition to the deposits presented in the table above, our exposure to loss related to our land and lot option contracts consisted of capitalized pre-acquisition costs of $4.7 million and $5.0 million as of September 30, 2016 and December 31, 2015, respectively. These pre-acquisition costs were included in real estate inventories as land under development on our consolidated balance sheets.

9. Goodwill and Other Intangible Assets

As of September 30, 2016 and December 31, 2015, $139.3 million of goodwill is included in goodwill and other intangible assets, net on each of the consolidated balance sheets. The Company's goodwill balance is included in the TRI Pointe Homes reporting segment in Note 3, Segment Information.

We have two intangible assets recorded as of September 30, 2016, comprised of an existing trade name from the acquisition of Maracay Homes in 2006, which has a 20 year useful life, and a TRI Pointe Homes trade name resulting from the acquisition of WRECO in 2014, which has an indefinite useful life.

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

	September 30, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Goodwill	$139,304	$ —	$139,304	$139,304	$ —	$139,304
Trade names	27,979	(5,654)	22,325	27,979	(5,254)	22,725
Total	$167,283	$ (5,654)	$161,629	$167,283	$ (5,254)	$162,029

The remaining useful life of our amortizing intangible asset related to the Maracay Homes trade name was 9.4 and 10.2 years as of September 30, 2016 and December 31, 2015, respectively. Amortization expense related to this intangible asset was $133,000 for each of the three month periods ended September 30, 2016 and 2015, respectively and was $400,000 for each of the nine month periods ended September 30, 2016 and 2015, 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. All trade names are evaluated for impairment on an annual basis or more frequently if indicators of impairment exist.

Expected amortization of our intangible asset related to Maracay Homes for the remainder of 2016, the next four years and thereafter is (in thousands):

Remainder of 2016	$134
2017	534
2018	534
2019	534
2020	534
Thereafter	2,755
Total	$5,025

10. Other Assets

Other assets consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Prepaid expenses	$ 14,899	$ 14,523
Refundable fees and other deposits	21,695	17,056
Development rights, held for future use or sale	4,227	4,360
Deferred loan costs - unsecured revolving credit facility	2,319	2,179
Operating properties and equipment, net	9,525	7,643
Income tax receivable	10,633	—
Other	2,700	3,157
Total	$ 65,998	$ 48,918

11. Accrued Expenses and Other Liabilities

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

	September 30, 2016	December 31, 2015
Accrued payroll and related costs	$ 23,126	$ 28,264
Warranty reserves (Note 14)	45,665	45,948
Estimated cost for completion of real estate inventories	53,218	52,818
Customer deposits	19,428	12,132
Debt (nonrecourse) held by VIEs	—	2,442
Income tax liability to Weyerhaeuser (Note 17)	8,999	8,900
Accrued income taxes payable	—	19,279
Liability for uncertain tax positions (Note 17)	—	307
Accrued interest	19,240	2,417
Accrued insurance expense	2,529	1,402
Other tax liability	30,459	21,764
Other	16,732	20,590
Total	$ 219,396	$ 216,263

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

Senior Notes

The Senior Notes consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
4.375% Senior Notes due June 15, 2019	$ 450,000	$ 450,000
4.875% Senior Notes due July 1, 2021	300,000	—
5.875% Senior Notes due June 15, 2024	450,000	450,000
Discount and deferred loan costs	(33,276)	(31,321)
Total	$ 1,166,724	$ 868,679

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

TRI Pointe Group and TRI Pointe Homes are co-issuers of the 2019 Notes and the 2024 Notes. The 2019 Notes were issued at 98.89% of their aggregate principal amount and the 2024 Notes were issued at 98.15% of their aggregate principal amount. The net proceeds from the offering were $861.3 million, after debt issuance costs and discounts. The 2019 Notes and 2024 Notes mature on June 15, 2019 and June 15, 2024, respectively. Interest is payable semiannually in arrears on June 15 and December 15.

As of September 30, 2016, no principal has been paid on the 2019 Notes, 2021 Notes and 2024 Notes (together, the "Senior Notes"), and there was $22.0 million of capitalized debt financing costs, included in senior notes, net on our consolidated balance sheet, related to the Senior Notes that will amortize over the lives of the Senior Notes. Accrued interest related to the Senior Notes was $18.6 million and $1.9 million as of September 30, 2016 and December 31, 2015, respectively.

Unsecured Revolving Credit Facility

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

	September 30, 2016	December 31, 2015
Unsecured revolving credit facility	$ 200,000	$ 299,392

On April 28, 2016, the Company partially exercised the accordion feature under its existing unsecured revolving credit facility (the “Credit Facility”) to increase the total commitments under the Credit Facility to $625 million from $550 million. The Credit Facility matures on May 18, 2019, 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 acquisition, land development and homebuilding activities. Borrowings under the Credit Facility will be governed by, among other things, a borrowing base. Interest rates on borrowings under the Credit Facility will be based on either a daily Eurocurrency base rate or a Eurocurrency rate, in either case, plus a spread ranging from 1.45% to 2.20%, depending on the Company’s leverage ratio. As of September 30, 2016, the outstanding balance under the Credit Facility was $200.0 million with an interest rate of 2.28% per annum and $420.7 million of availability after considering the borrowing base provisions and outstanding letters of credit. As of September 30, 2016 there was $2.3 million of capitalized debt financing costs, included in other assets on our consolidated balance sheet, related to the Credit Facility that will amortize over the life of the Credit Facility, maturing on May 18, 2019. Accrued interest related to the Credit Facility was $645,000 and $407,000 as of September 30, 2016 and December 31, 2015, respectively.

At September 30, 2016 we had outstanding letters of credit of $4.3 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):

	September 30, 2016	December 31, 2015
Seller financed loans	$ 17,758	$ 2,434

As of September 30, 2016, the Company had $17.8 million outstanding related to a seller financed loan to acquire land and lots for the construction of homes. Principal and interest payments on this loan are due at various maturity dates, including at the time individual homes associated with the acquired land are delivered. As of September 30, 2016, the seller financed loan accrues interest at a rate of 7.0% per annum, with interest calculated on a daily basis. A minimum principal payment of $12.1 million is due in June 2017 with any remaining unpaid balance due in June 2018. Accrued interest on seller financed loans was $359,000 and $89,000 as of September 30, 2016 and December 31, 2015, respectively.

Interest Incurred

During the three month periods ended September 30, 2016 and 2015, the Company incurred interest of $18.6 million and $15.5 million, respectively, related to all debt during the period. All interest incurred was capitalized to inventory for the three month periods ended September 30, 2016 and 2015, respectively. Included in interest incurred was amortization of deferred financing and Senior Notes discount costs of $1.8 million and $1.5 million for the three months ended September 30, 2016 and 2015, respectively. During the nine month periods ended September 30, 2016 and 2015, the Company incurred interest of $50.0 million and $45.8 million, respectively, related to all debt during the period. All interest incurred was capitalized to inventory for the nine month periods ended September 30, 2016 and 2015, respectively. Included in interest incurred was amortization of deferred financing and Senior Notes discount costs of $4.7 million and $3.9 million for the nine months ended September 30, 2016 and 2015, respectively. Accrued interest related to all outstanding debt at September 30, 2016 and December 31, 2015 was $19.2 million and $2.4 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 September 30, 2016 and December 31, 2015.

13. Fair Value Disclosures

Fair Value Measurements

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

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

Fair Value of Financial Instruments

A summary of assets and liabilities at September 30, 2016 and December 31, 2015, related to our financial instruments, measured at fair value on a recurring basis, is set forth below (in thousands):

		September 30, 2016		December 31, 2015	
	Hierarchy	Book Value	Fair Value	Book Value	Fair Value
Senior Notes [1]	Level 2	$1,188,686	$1,235,250	$889,054	$881,460
Unsecured revolving credit facility [2]	Level 2	$200,000	$192,772	$299,392	$299,392
Seller financed loans [3]	Level 2	$17,758	$17,758	$2,434	$2,368

(1) The book value of the Senior Notes is net of discounts, excluding deferred loan costs of $22.0 million and $20.4 million as of September 30, 2016 and December 31, 2015, respectively. The estimated fair value of the Senior Notes at September 30, 2016 and December 31, 2015 is based on quoted market prices.

(2) The estimated fair value of the Credit Facility at September 30, 2016 is based on a treasury curve analysis. We believe that the carrying value of the Credit Facility approximated fair value at December 31, 2015 due to the short term nature of the current rate amended on May 18, 2015.

(3) The estimated fair value of the seller financed loans at September 30, 2016 and December 31, 2015 is based on a treasury curve analysis.

At September 30, 2016 and December 31, 2015, the carrying value of cash and cash equivalents and receivables approximated fair value.

Fair Value of Nonfinancial Assets

Nonfinancial assets include items such as real estate inventories and long-lived assets that are measured at fair value on a nonrecurring basis when events and circumstances 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):

	Nine Months Ended September 30, 2016		Year Ended December 31, 2015	
	Impairment Charge	Fair Value Net of Impairment	Impairment Charge	Fair Value Net of Impairment
Real estate inventories [1]	$ —	$ —	$1,167	$ 28,540

(1) Fair value of real estate inventories, net of impairment charges represents only those assets whose carrying values were adjusted to fair value in the respective periods presented. The fair value of these real estate inventories impaired was determined based on recent offers received from outside third parties or actual contracts.

14. Commitments and Contingencies

Legal Matters

Lawsuits, claims and proceedings have been and may be instituted or asserted against us in the normal course of business, including actions brought on behalf of various classes of claimants. We are also subject to local, state and federal laws and regulations related to land development activities, house construction standards, sales practices, employment practices, environmental protection and financial services. As a result, we are subject to periodic examinations or inquiry by agencies administering these laws and regulations.

We record a reserve for potential legal claims and regulatory matters when they are probable of occurring and a potential loss is reasonably estimable. We accrue for these matters based on facts and circumstances specific to each matter and revise these estimates when necessary. In view of the inherent difficulty of predicting outcomes of legal claims and related contingencies, we generally cannot predict their ultimate resolution, related timing or eventual loss. Accordingly, it is possible that the ultimate outcome of any matter, if in excess of a related accrual or if no accrual was made, could be material to our financial statements. For matters as to which the Company believes a loss is probable and reasonably estimable, we had legal reserves of $225,000 and $450,000 as of September 30, 2016 and December 31, 2015, respectively.

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 a significant majority of our subcontractors, which are enrolled in 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, management estimates warranty reserves and allowances necessary to cover any current or future construction-related claims based on actuarial analysis. Under this analysis, reserve amounts are estimated using our historical expense and claim data, as well as industry data. In addition, we record expected recoveries from insurance carriers when proceeds are probable and estimable. Outstanding warranty insurance receivables were $9.7 million and $10.5 million as of September 30, 2016 and December 31, 2015, respectively. Warranty insurance receivables are recorded in receivables on the accompanying consolidated balance sheets.

There can be no assurance that our warranty reserves will sufficiently cover the costs of future warranty 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Warranty reserves, beginning of period	$45,272	$35,375	$45,948	$33,270
Warranty reserves accrued	3,329	4,201	8,373	10,427
Adjustments to pre-existing reserves	200	(14)	460	1,286
Warranty expenditures	(3,136)	(2,819)	(9,116)	(8,240)
Warranty reserves, end of period	$45,665	$36,743	$45,665	$36,743

Performance Bonds

We obtain surety bonds in the normal course of business to ensure completion of certain infrastructure improvements of our projects. As of September 30, 2016 and December 31, 2015, the Company had outstanding surety bonds totaling $433.6 million and $414.1 million, respectively. The beneficiaries of the bonds are various municipalities.

15. Stock-Based Compensation

2013 Long-Term Incentive Plan

The Company’s stock compensation plan, the 2013 Long-Term Incentive Plan (the “2013 Incentive Plan”), was adopted by TRI Pointe in January 2013 and amended, with the approval of our stockholders, in 2014 and 2015. In addition, our board of directors amended the 2013 Incentive Plan in 2014 to prohibit repricing (other than in connection with any equity restructuring or any change in capitalization) of outstanding options or stock appreciation rights without stockholder approval. The 2013 Incentive Plan provides for the grant of equity-based awards, including options to purchase shares of common stock, stock appreciation rights, bonus stock, restricted stock, restricted stock units and performance awards. The 2013 Incentive Plan will automatically expire on the tenth anniversary of its effective date. Our board of directors may terminate or amend the 2013 Incentive Plan at any time, subject to any requirement of stockholder approval required by applicable law, rule or regulation.

As amended, the number of shares of our common stock that may be issued under the 2013 Incentive Plan is 11,727,833 shares. To the extent that shares of our common stock subject to an outstanding option, stock appreciation right, stock award or performance award granted under the 2013 Incentive Plan are not issued or delivered by reason of the expiration, termination, cancellation or forfeiture of such award or the settlement of such award in cash, then such shares of our common stock generally shall again be available under the 2013 Incentive Plan. As of September 30, 2016 there were 7,604,642 shares available for future grant under the 2013 Incentive Plan.

Converted Awards

On July 16, 2014, the Company filed a registration statement on Form S-8 (Registration No. 333-197461) to register 4,105,953 shares of common stock related to converted equity awards issued in connection with the Company's acquisition of WRECO. The converted awards have the same terms and conditions as the prior 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 an exchange ratio of 2.1107, rounded down to the nearest whole number of shares of common stock. There will be no future grants under the WRECO equity incentive plans.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Total stock-based compensation	$3,285	$2,994	$9,648	$8,536

Stock-based compensation is charged to general and administrative expense on the accompanying consolidated statements of operations. As of September 30, 2016, total unrecognized stock-based compensation related to all stock-based awards was $20.3 million and the weighted average term over which the expense was expected to be recognized was 1.9 years.

Summary of Stock Option Activity

The following table presents a summary of stock option awards for the nine months ended September 30, 2016:

	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2015	3,220,147	$ 13.12	5.2	$ 3,081
Granted	—	—	—	—
Exercised	(79,689)	9.89	—	—
Forfeited	(155,380)	12.39	—	—
Options outstanding at September 30, 2016	2,985,078	13.24	4.6	3,282

Options exercisable at September 30, 2016	2,616,544	13.05	4.3	3,282