TRI Pointe Homes, Inc.
Form 10-Q
August 07, 2014
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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, 2014

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 Incorporation or Organization)	**(I.R.S. Employer 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 Exchange Act). Yes ¨ No x

Registrant s shares of common stock outstanding at July 31, 2014: 161,332,533

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TRI POINTE HOMES, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TRI POINTE HOMES, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	June 30, 2014 (unaudited)	December 31, 2013
Assets		
Cash and cash equivalents	$ 26,120	$ 35,261
Real estate inventories	542,037	455,642
Contracts and accounts receivable	3,965	1,697
Deferred tax assets	4,611	4,611
Other assets	24,454	8,824
Total Assets	$ 601,187	$ 506,035
Liabilities and Stockholders Equity		
Accounts payable	$ 20,640	$ 23,397
Accrued liabilities	19,466	22,220
Notes payable	227,128	138,112
Total Liabilities	267,234	183,729
Stockholders Equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized; no shares outstanding as of June 30, 2014 and December 31, 2013, respectively		
Common stock, $0.01 par value, 500,000,000 shares authorized; 31,632,533 and 31,597,907 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	316	316
Additional paid-in capital	312,103	310,878
Retained earnings	21,534	11,112
Total Stockholders Equity	333,953	322,306
Total Liabilities and Stockholders Equity	$ 601,187	$ 506,035

See accompanying condensed notes to the unaudited consolidated financial statements.

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TRI POINTE HOMES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(dollars in thousands, except share and per share amounts)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Revenues:				
Home sales	$ 87,336	$ 47,457	$ 160,148	$ 71,314
Fee building		3,630		7,661
Total revenues	87,336	51,087	160,148	78,975
Expenses:				
Cost of home sales	66,655	38,318	123,087	57,767
Fee building		3,395		7,020
Sales and marketing	2,886	1,791	5,372	3,121
General and administrative	6,875	4,108	12,767	7,421
Total expenses	76,416	47,612	141,226	75,329
Income from operations	10,920	3,475	18,922	3,646
Transaction expenses (Note 1)	(607)		(1,155)	
Other income, net	58	89	49	261
Income before income taxes	10,371	3,564	17,816	3,907
Provision for income taxes	(4,247)	(1,489)	(7,394)	(1,562)
Net income	$ 6,124	$ 2,075	$ 10,422	$ 2,345
Earnings per share (Note 2)				
Basic	$ 0.19	$ 0.07	$ 0.33	$ 0.08
Diluted	$ 0.19	$ 0.07	$ 0.33	$ 0.08
Weighted average number of shares (Note 2)				
Basic	31,632,533	31,597,907	31,622,956	29,940,448
Diluted	31,750,938	31,614,646	31,697,057	29,953,625

See accompanying condensed notes to the unaudited consolidated financial statements.

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TRI POINTE HOMES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Net income	$ 6,124	$ 2,075	$ 10,422	$ 2,345
Other comprehensive income:				
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	$ 6,124	$ 1,832	$ 10,422	$ 2,163

See accompanying condensed notes to the unaudited consolidated financial statements.

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TRI POINTE HOMES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Cash flows from operating activities		
Net income	$ 10,422	$ 2,345
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	149	224
Amortization of stock-based compensation	1,528	844
Gain on sale of marketable securities		(19)
Changes in operating assets and liabilities:		
Real estate inventories	(86,395)	(107,748)
Contracts and accounts receivable	(2,268)	(900)
Other assets	(11,084)	821
Accounts payable	(2,757)	(603)
Accrued liabilities	(2,754)	2,442
Net cash used in operating activities	(93,159)	(102,594)
Cash flows from investing activities		
Purchases of furniture and equipment	(248)	(290)
Purchases of marketable securities		(125,000)
Sales of marketable securities		85,000
Net cash used in investing activities	(248)	(40,290)
Cash flows from financing activities		
Borrowings from notes payable	431,189	53,850
Repayments of notes payable	(342,173)	(48,661)
Loan origination fees	(4,447)	
Minimum tax withholding paid on behalf of employees for stock awards	(303)	
Net proceeds from issuance of common stock		155,408
Net cash provided by financing activities	84,266	160,597
Net increase (decrease) in cash and cash equivalents	(9,141)	17,713
Cash and cash equivalents beginning of period	35,261	19,824
Cash and cash equivalents end of period	$ 26,120	$ 37,537

Supplemental disclosure of cash flow information				
Interest paid, net of amounts capitalized	$		$	
Income taxes paid	$	17,564	$	

See accompanying condensed notes to the unaudited consolidated financial statements.

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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 major metropolitan areas located throughout California and Colorado. The majority of our revenues and profits are generated in California. Unless the context otherwise requires, the terms we , us , our , TRI Pointe and the Company refer to Pointe Homes, Inc. (and its consolidated subsidiaries).

Subsequent Events

Merger with Weyerhaeuser Real Estate Company

On July 7, 2014 (the Closing Date), TRI Pointe consummated the previously announced merger (the Merger) of our wholly owned subsidiary, Topaz Acquisition, Inc. (Merger Sub), with and into Weyerhaeuser Real Estate Company (WRECO), with WRECO surviving the Merger and becoming our wholly owned subsidiary, as contemplated by the Transaction Agreement, dated as of November 3, 2013 (the Transaction Agreement), by and among us, Weyerhaeuser Company, WRECO and Merger Sub. In the Merger, TRI Pointe issued 129,700,000 shares of TRI Pointe common stock to the former holders of WRECO common shares, together with cash in lieu of any fractional shares. On the Closing Date, WRECO became a wholly owned subsidiary of TRI Pointe. Immediately following the consummation of the Merger, the ownership of TRI Pointe common stock on a fully diluted basis was as follows: (i) WRECO common shares held by former Weyerhaeuser shareholders were converted into the right to receive, in the aggregate, approximately 79.6% of the then outstanding TRI Pointe common stock, (ii) the TRI Pointe common stock outstanding immediately prior to the consummation of the Merger represented approximately 19.4% of the then outstanding TRI Pointe common stock, and (iii) outstanding equity awards of WRECO and TRI Pointe employees represented the remaining 1.0% of the then outstanding TRI Pointe common stock. On the Closing Date, the former direct parent entity of WRECO paid TRI Pointe an estimated adjustment amount of approximately $31.5 million in cash in accordance with the Transaction Agreement.

TRI Pointe s Registration Statement on Form S-4, as amended (Registration No. 333-193248), which was declared effective by the U.S. Securities and Exchange Commission on May 22, 2014, sets forth certain additional information regarding the Merger, the WRECO business, and the intended operations of the combined company created as a result of the Merger.

Assumption of Senior Notes

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

The net proceeds of approximately $867.7 million from the offering of the Notes were deposited into two separate escrow accounts following the closing of the offering on June 13, 2014. Upon release of the escrowed funds on the Closing Date and prior to the consummation of the Merger, WRECO paid approximately $743.7 million in cash to its former direct parent, which cash was retained by Weyerhaeuser and its subsidiaries (other than WRECO and its subsidiaries). The payment consisted of the $739.0 million Payment Amount (as defined in the Transaction Agreement) as well as approximately $4.7 million in payment of all unpaid interest on WRECO s intercompany debt that accrued from November 3, 2013 to the Closing Date. The remaining $124.0 million of proceeds was retained by TRI Pointe.

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Transaction Expenses

As a result of the Merger, the Company has incurred due diligence, integration and other related transaction expenses during the three and six months ended June 30, 2014 of $607,000 and $1.2 million, respectively. The Company expects to incur significant expenses in connection with the Merger during the three months ended September 30, 2014, including (i) reimbursement of up to $15 million of transaction-related fees and expenses incurred by Weyerhaeuser in accordance with the Transaction Agreement, (ii) approximately $6 million of advisory fees, (iii) approximately $29 million of financing-related fees, $19 million of which will be capitalized as deferred finance related costs, and (iv) accounting, legal and other integration expenses incurred by the Company.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) as contained within the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) for interim financial information and the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with GAAP have been condensed or omitted.

In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly our consolidated financial position as of June 30, 2014, the results of our consolidated operations for the three and six months ended June 30, 2014 and 2013, and our consolidated cash flows for the six months ended June 30, 2014 and 2013. The results of our consolidated operations for the three and six months ended June 30, 2014 are not necessarily indicative of the results to be expected for the full year due to the Merger as well as seasonal variations in operating results and other factors. The consolidated balance sheet at December 31, 2013 has been taken from the audited consolidated financial statements as of that date. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2013, which are contained in our annual report on Form 10-K for that period.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries (other than WRECO and its subsidiaries). All significant intercompany accounts have been eliminated upon consolidation. Certain prior period amounts have been reclassified to conform to current period presentation. Subsequent events have been evaluated through the date the financial statements were issued.

The Merger was accounted for in accordance with ASC 805, Business Combinations. For accounting purposes, the Merger was treated as a reverse acquisition and WRECO was considered the accounting acquirer. Accordingly, WRECO will be reflected as the predecessor and acquirer in the Company s (the legal acquirer) financial statements for periods ending after June 30, 2014. Our financial statements will reflect the historical financial statements of WRECO as our historical financial statements, except for the legal capital which will reflect our legal capital (common stock). However, because the Merger was not consummated until July 7, 2014, this quarterly report on Form 10-Q includes the unaudited consolidated financial statements (and discussion thereof in Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations) of the Company as of and for June 30, 2014 on a stand-alone basis. The initial accounting for the Merger (including the allocation of the purchase price to acquired assets and liabilities) is not complete given the limited amount of time since the Closing Date.

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 at the date of the financial statements and the reported amounts of costs and expenses during the reporting period. On an ongoing basis, our management evaluates its estimates and judgments. Our management bases its estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances. Actual results may differ from our estimates under different assumptions or conditions.

Recently Issued Accounting Standards

In April 2014, the FASB issued amendments to Accounting Standards Update 2014-08 (ASU 2014-08), *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The update requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity s financial results or a business activity classified as held for sale should be reported as discontinued operations. The amendments also expand the disclosure requirements for discontinued operations and add new disclosures for individually significant dispositions that do not qualify

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as discontinued operations. The amendments are effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2014 (early adoption is permitted only for disposals that have not been previously reported). The implementation of the amended guidance is not expected to have a material impact on our consolidated financial position or results of operations.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers*. 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 Accounting Standards Codification Topic No. 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. ASU 2014-09 is effective for public entities for annual periods and interim periods within those annual periods beginning after December 15, 2016. Early adoption is not permitted. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

2. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Numerator:				
Net income	$ 6,124	$ 2,075	$ 10,422	$ 2,345
Denominator:				
Basic weighted-average shares outstanding	31,632,533	31,597,907	31,622,956	29,940,448
Effect of dilutive shares:				
Unvested restricted stock units(1)	118,405	16,739	74,101	13,177