

# TRI POINTE HOMES, INC.

## FORM 8-K (Current report filing)

Filed 07/07/14 for the Period Ending 07/07/14

|             |  |
|-------------|--|
| Address     | 19520 JAMBOREE ROAD, SUITE 200<br>IRVINE, CA 92612 |
| Telephone   | (949) 478-8600                                     |
| CIK         | 0001561680   |
| Symbol      | TPH  |
| SIC Code    | 1531 - Operative Builders                          |
| Industry    | Construction Services                              |
| Sector      | Capital Goods                                      |
| Fiscal Year | 12/31  |

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

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**FORM 8-K**

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**CURRENT REPORT  
Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported) July 7, 2014**

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**TRI Pointe Homes, Inc.**  
(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or Other Jurisdiction of Incorporation)

**1-35796**  
(Commission File Number)

**27-3201111**  
(IRS Employer Identification No.)

**19520 Jamboree Road, Suite 200, Irvine, California**  
(Address of principal executive offices)

**92612**  
(Zip Code)

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

**Not Applicable**  
(Former name or former address, if changed since last report.)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 1.01 Entry into a Material Definitive Agreement.****Merger with Weyerhaeuser Real Estate Company.**

As previously announced on November 4, 2013, TRI Pointe Homes, Inc., a Delaware corporation (“TRI Pointe”), and Weyerhaeuser Company, a Washington corporation (“Weyerhaeuser”), entered into a Transaction Agreement, dated as of November 3, 2013 (the “Transaction Agreement”), by and among TRI Pointe, Weyerhaeuser, Weyerhaeuser Real Estate Company, a Washington corporation and a wholly owned subsidiary of Weyerhaeuser (“WRECO”), and Topaz Acquisition, Inc., a Washington corporation and a wholly owned subsidiary of TRI Pointe (“Merger Sub”), which provides for the combination of TRI Pointe and WRECO through a “Reverse Morris Trust” transaction.

As previously announced on May 22, 2014, Weyerhaeuser commenced an exchange offer in connection with the “Reverse Morris Trust” transaction, pursuant to which Weyerhaeuser shareholders had the option to exchange all, some, or none of their Weyerhaeuser common shares, par value \$1.25 per share, for WRECO common shares, par value \$0.04 per share. The exchange offer and withdrawal rights expired at 12:00 midnight, New York City time, on July 2, 2014.

On July 7, 2014 (the “Closing Date”), Merger Sub merged with and into WRECO (the “Merger”), with WRECO surviving the Merger and becoming a wholly owned subsidiary of TRI Pointe. In the Merger, each issued and outstanding WRECO common share was converted into the right to receive 1.297 fully paid and non-assessable shares of TRI Pointe common stock. On the Closing Date, Weyerhaeuser NR Company (“WNR”), a wholly owned subsidiary of Weyerhaeuser and 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 (the “Registration Statement”), 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; Guarantees of Senior Notes and Credit Agreement.**

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 (the “Purchase Agreement Joinder”) to that certain Purchase Agreement, dated as of June 4, 2014 (the “Purchase Agreement”), 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 (collectively, the “Registration Rights Joinders”) to the Registration Rights Agreements, dated as of June 13, 2014, among WRECO and the Initial Purchasers with respect to the Notes (together, the “Registration Rights Agreements”), 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 Weyerhaeuser NR Company, a wholly owned subsidiary of Weyerhaeuser and the former direct parent entity of WRECO, which cash was retained by Weyerhaeuser and its subsidiaries (other than WRECO and its subsidiaries). The payment consisted of the \$739 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 the November 3, 2013 date of the Transaction Agreement.

The foregoing description of the Supplemental Indentures is qualified in its entirety by reference to the Supplemental Indentures, copies of which are filed as Exhibits 4.1 through 4.4 hereto and incorporated by reference into this Item 1.01. The foregoing description of the Purchase Agreement Joinder is qualified in its entirety by reference to the Purchase Agreement Joinder, a copy of which is filed as Exhibit 10.1 hereto and incorporated by reference into this Item 1.01. The foregoing description of the Registration Rights Joinders is qualified in its entirety by reference to the Registration Rights Joinders, copies of which are filed as Exhibits 10.2 through 10.5 hereto and incorporated by reference into this Item 1.01.

On the Closing Date, the Guarantors also entered into a guaranty supplement, pursuant to which the Guarantors guaranteed TRI Pointe's obligations under its Credit Agreement, dated as of June 26, 2013, among TRI Pointe, the lender parties thereto, and U.S. Bank National Association, as administrative agent.

#### Tax Sharing Agreement.

In connection with the closing of the Merger, TRI Pointe, Weyerhaeuser and WRECO entered into a Tax Sharing Agreement, dated as of July 7, 2014 (the "Tax Sharing Agreement"), which will govern both Weyerhaeuser's and TRI Pointe's rights and obligations with respect to taxes for the periods prior to and following the date of the Transaction Agreement.

#### *Ordinary Course Taxes*

Under the Tax Sharing Agreement, Weyerhaeuser generally will be required to indemnify TRI Pointe for any taxes attributable to WRECO's operations for any taxable periods ending on or before the date of the Transaction Agreement and TRI Pointe generally will be required to indemnify Weyerhaeuser for any taxes attributable to WRECO's operations for any taxable periods ending after the date of the Transaction Agreement.

#### *Distribution-Related Taxes*

TRI Pointe will generally be required to indemnify Weyerhaeuser against any tax imposed on the Distribution (as defined in the Transaction Agreement) if that tax results from any action taken or omission to act by TRI Pointe, its subsidiaries or certain affiliates of TRI Pointe. These actions or omissions include those involving (i) an issuance, redemption, recapitalization or repurchase of TRI

Pointe or WRECO's equity securities or the involvement of TRI Pointe, WRECO, any of their subsidiaries or certain affiliates of TRI Pointe and WRECO in acquisitions of TRI Pointe or WRECO's equity securities, (ii) other actions or omissions (such as those described in the following paragraph) by TRI Pointe or its subsidiaries or certain of its affiliates or (iii) a breach of any undertakings by TRI Pointe referred to in the Tax Sharing Agreement. If tax, other than certain transfer taxes, is imposed on Weyerhaeuser with respect to the Distribution for reasons not related to any of the above actions by WRECO or TRI Pointe, Weyerhaeuser will be responsible for such tax and will not be entitled to indemnification by TRI Pointe under the Tax Sharing Agreement.

In addition, to preserve the tax-free treatment to Weyerhaeuser of the Distribution, for a two-year period following the Closing Date, the following actions will be subject to restrictions:

- redemption, recapitalization, repurchase or acquisition by TRI Pointe or WRECO of their capital stock;
- issuance by TRI Pointe or WRECO of capital stock or instruments convertible or exchangeable into capital stock of TRI Pointe or WRECO;
- merger or consolidation of TRI Pointe or WRECO with any other person;
- liquidation or partial liquidation of TRI Pointe or WRECO;
- discontinuance of the operations of the WRECO's real estate business;
- sale or disposition of (other than in the ordinary course of business) more than 33 1/3% of the assets (determined based on the gross fair market value of the assets immediately before the Closing Date) of WRECO and its subsidiaries in the aggregate; or
- other actions, omissions to act or transactions that could jeopardize the tax-free status of the Distribution.

TRI Pointe will be permitted to take any of the actions described above in the event that TRI Pointe delivers to Weyerhaeuser an unqualified tax opinion reasonably acceptable to Weyerhaeuser and receives the prior written consent of Weyerhaeuser or if TRI Pointe delivers to Weyerhaeuser an Internal Revenue Service ("IRS") ruling, in either case to the effect that such proposed action will not affect the tax-free status of the Distribution, the Merger and certain related transactions as tax-free transactions. If TRI Pointe intends to take any such restricted action, Weyerhaeuser will be required to cooperate with TRI Pointe in obtaining the unqualified tax opinion or IRS ruling. Should the taking of such actions by TRI Pointe undermine the tax-free status of the Distribution and result in tax to Weyerhaeuser, TRI Pointe generally will be required to indemnify Weyerhaeuser for such taxes, without regard to whether Weyerhaeuser has given TRI Pointe prior consent.

The foregoing description of the Tax Sharing Agreement is qualified in its entirety by reference to the Tax Sharing Agreement, a copy of which is filed as Exhibit 10.6 hereto and incorporated by reference into this Item 1.01.

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The foregoing agreements described in this Item 1.01 contain representations and warranties made as of specific dates. The assertions embodied in those representations and warranties were made solely for purposes of those agreements and may be subject to important qualifications and limitations agreed by the parties in connection with negotiating the terms of the agreement. Moreover, some of those representations and warranties may not be accurate or complete as of any specified date, may be subject to a contractual standard of materiality different from those generally applicable to shareholders, or may have been used for the purpose of allocating risk between the parties rather than establishing matters as facts. For the foregoing reasons, such representations and warranties should not be relied upon as statements of factual information.

**Item 2.01 Completion of Acquisition or Disposition of Assets.**

On the Closing Date, the Merger was consummated pursuant to the Transaction Agreement. Pursuant to the Transaction Agreement, each issued and outstanding WRECO common share was converted into the right to receive 1.297 fully paid and non-assessable shares of TRI Pointe common stock. 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.

The information contained in Item 1.01 of this Current Report is incorporated by reference into this Item 2.01. In addition, the foregoing description of the Merger and the related transactions is qualified in its entirety by reference to the Transaction Agreement, a copy of which is filed as Exhibit 2.1 hereto and incorporated by reference into this Item 2.01.

The Transaction Agreement contains representations and warranties that the Company and Merger Sub, on the one hand, and Weyerhaeuser and WRECO on the other hand, made to each other as of specific dates. The assertions embodied in those representations and warranties were made solely for purposes of the contract between the parties to the Transaction Agreement and may be subject to important qualifications and limitations agreed by the parties in connection with negotiating the terms of the contract. Moreover, some of those representations and warranties may not be accurate or complete as of any specified date, may be subject to a contractual standard of materiality different from those generally applicable to shareholders, or may have been used for the purpose of allocating risk between the parties rather than establishing matters as facts. For the foregoing reasons, such representations and warranties should not be relied upon as statements of factual information.

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**Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.**

The information contained under the caption “Assumption of Senior Notes; Guarantees of Senior Notes and Credit Agreement” in Item 1.01 of this Current Report is incorporated by reference into this Item 2.03.

**Item 8.01 Other Events.**

On July 7, 2014, TRI Pointe issued a press release announcing the consummation of the Merger. A copy of the press release is filed as Exhibit 99.1 hereto and incorporated by reference into this Item 8.01.

**Item 9.01 Financial Statements and Exhibits.****(a) Financial Statements of Business Acquired.**

The financial statements of WRECO required by this item are filed as Exhibit 99.2 hereto and incorporated by reference into this Item 9.01(a).

**(b) Pro Forma Financial Information.**

The pro forma financial information required by this item will be filed by amendment to this Current Report on Form 8-K no later than 71 calendar days after the date on which this Current Report on Form 8-K must be filed.

**(d) Exhibits.****Exhibit**

| No. | Description   |
|-----|---|
| 2.1 | Transaction Agreement, dated as of November 3, 2013, among TRI Pointe Homes, Inc., Weyerhaeuser Company, Weyerhaeuser Real Estate Company, and Topaz Acquisition, Inc. (incorporated by reference to Exhibit 2.1 to TRI Pointe’s Registration Statement on Form S-4/A filed on March 28, 2014). |
| 4.1 | First Supplemental Indenture, dated as of July 7, 2014, among TRI Pointe Homes, Inc., Weyerhaeuser Real Estate Company and U.S. Bank National Association, as trustee, relating to the 4.375% Senior Notes due 2019.  |
| 4.2 | First Supplemental Indenture, dated as of July 7, 2014, among TRI Pointe Homes, Inc., Weyerhaeuser Real Estate Company and U.S. Bank National Association, as trustee, relating to the 5.875% Senior Notes due 2024.  |
| 4.3 | Second Supplemental Indenture, dated as of July 7, 2014, among the guarantors party thereto and U.S. Bank National Association, as trustee, relating to the 4.375% Senior Notes due 2019.   |

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- 4.4 Second Supplemental Indenture, dated as of July 7, 2014, among the guarantors party thereto and U.S. Bank National Association, as trustee, relating to the 5.875% Senior Notes due 2024.
  - 10.1 Joinder Agreement to Purchase Agreement, dated as of July 7, 2014, relating to the 4.375% Senior Notes due 2019 and 5.875% Senior Notes due 2024.
  - 10.2 Issuer Joinder Agreement to Registration Rights Agreement, dated as of July 7, 2014, relating to 4.375% Senior Notes due 2019.
  - 10.3 Issuer Joinder Agreement to Registration Rights Agreement, dated as of July 7, 2014, relating to 5.875% Senior Notes due 2024.
  - 10.4 Guarantor Joinder Agreement to Registration Rights Agreement, dated as of July 7, 2014, relating to 4.375% Senior Notes due 2019.
  - 10.5 Guarantor Joinder Agreement to Registration Rights Agreement, dated as of July 7, 2014, relating to 5.875% Senior Notes due 2024.
  - 10.6 Tax Sharing Agreement, dated as of July 7, 2014, among Weyerhaeuser Company, Weyerhaeuser Real Estate Company, and TRI Pointe Homes, Inc.
  - 99.1 Press Release, dated July 7, 2014.
  - 99.2 Audited and Unaudited Financial Statements of WRECO.

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**SIGNATURES**

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

Date: July 7, 2014

TRI Pointe Homes, Inc.

By /s/ Bradley W. Blank  
Bradley W. Blank  
Vice President, General Counsel and  
Secretary

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## EXHIBIT INDEX

| Exhibit No. | Description   |
|-------------|---|
| 2.1         | Transaction Agreement, dated as of November 3, 2013, among TRI Pointe Homes, Inc., Weyerhaeuser Company, Weyerhaeuser Real Estate Company, and Topaz Acquisition, Inc. (incorporated by reference to Exhibit 2.1 to TRI Pointe's Registration Statement on Form S-4/A filed on March 28, 2014). |
| 4.1         | First Supplemental Indenture, dated as of July 7, 2014, among TRI Pointe Homes, Inc., Weyerhaeuser Real Estate Company and U.S. Bank National Association, as trustee, relating to the 4.375% Senior Notes due 2019.  |
| 4.2         | First Supplemental Indenture, dated as of July 7, 2014, among TRI Pointe Homes, Inc., Weyerhaeuser Real Estate Company and U.S. Bank National Association, as trustee, relating to the 5.875% Senior Notes due 2024.  |
| 4.3         | Second Supplemental Indenture, dated as of July 7, 2014, among the guarantors party thereto and U.S. Bank National Association, as trustee, relating to the 4.375% Senior Notes due 2019.   |
| 4.4         | Second Supplemental Indenture, dated as of July 7, 2014, among the guarantors party thereto and U.S. Bank National Association, as trustee, relating to the 5.875% Senior Notes due 2024.   |
| 10.1        | Joinder Agreement to Purchase Agreement, dated as of July 7, 2014, relating to the 4.375% Senior Notes due 2019 and 5.875% Senior Notes due 2024.   |
| 10.2        | Issuer Joinder Agreement to Registration Rights Agreement, dated as of July 7, 2014, relating to 4.375% Senior Notes due 2019.  |
| 10.3        | Issuer Joinder Agreement to Registration Rights Agreement, dated as of July 7, 2014, relating to 5.875% Senior Notes due 2024.  |
| 10.4        | Guarantor Joinder Agreement to Registration Rights Agreement, dated as of July 7, 2014, relating to 4.375% Senior Notes due 2019.   |
| 10.5        | Guarantor Joinder Agreement to Registration Rights Agreement, dated as of July 7, 2014, relating to 5.875% Senior Notes due 2024.   |
| 10.6        | Tax Sharing Agreement, dated as of July 7, 2014, among Weyerhaeuser Company, Weyerhaeuser Real Estate Company, and TRI Pointe Homes, Inc.   |
| 99.1        | Press Release, dated July 7, 2014.  |
| 99.2        | Audited and Unaudited Financial Statements of WRECO.  |

THIS FIRST SUPPLEMENTAL INDENTURE (this “*Supplemental Indenture*”), entered into as of July 7, 2014, among TRI Pointe Homes, Inc., a Delaware corporation (“*TPH*” and upon execution of this Supplemental Indenture by the parties hereto, the “*Issuer*” for all purposes of the Indenture and the Notes), TRI Pointe Holdings, Inc. (f/k/a Weyerhaeuser Real Estate Company), a Washington company (“*WRECO*”), and U.S. Bank National Association, as trustee (the “*Trustee*”). Capitalized terms used herein and not otherwise defined herein are used as defined in the Indenture referred to below.

## WITNESSETH

WHEREAS, WRECO has heretofore executed and delivered to the Trustee an indenture (the “*Indenture*”), dated as of June 13, 2014, providing for the issuance of 4.375% Senior Notes due 2019 (the “*Notes*”);

WHEREAS, the Indenture provides that upon consummation of the Combination, TPH shall execute and deliver this Supplemental Indenture and any other agreements, documents and instruments necessary or proper to cause TPH to become the issuer of the Notes and assume the obligations of an issuer under the Indenture;

WHEREAS, the Indenture provides that upon consummation of the Combination, WRECO shall execute and deliver any agreements, documents and instruments necessary or proper to (i) cause WRECO to become a Guarantor of the Notes and assume the obligations of a Guarantor under the Indenture and (ii) cause TPH to become the sole issuer of the Notes and assume the obligations of the issuer under the Indenture;

WHEREAS, TPH is to become the Issuer under the Indenture and the Notes and shall after execution and delivery of this Supplemental Indenture by the parties hereto assume all the obligations of an issuer under the Indenture and the Notes on the terms and conditions set forth herein;

WHEREAS, WRECO is to become a Guarantor under the Indenture and unconditionally guarantee, on a joint and several basis with any other Guarantors from time to time party to the Indenture, all of the Issuer’s obligations under the Notes and the Indenture on the terms and conditions set forth herein (the “*Note Guarantee*”);

WHEREAS, pursuant to Section 8.01(i) of the Indenture, WRECO and the Trustee are authorized to execute and deliver this Supplemental Indenture without the consent of Holders of the Notes; and

WHEREAS, all things necessary to make this Supplemental Indenture a valid indenture and agreement according to its terms have been done.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, TPH, WRECO and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

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1. **A MENDMENT** . This Supplemental Indenture is an amendment supplemental to the Indenture, and the Indenture and this Supplemental Indenture will henceforth be read together.

2. **A GREEMENT TO O BLIGE** .

(a) TPH hereby agrees to become a party to the Indenture as the Issuer and as such will have all of the rights and be subject to all of the obligations and agreements of the Issuer under the Indenture and the Notes, effective upon the execution and delivery of this Supplemental Indenture;

(b) WRECO hereby agrees to become a Guarantor and as such will have all of the rights and be subject to all of the obligations and agreements of a Guarantor under the Indenture, effective upon the execution and delivery of this Supplemental Indenture;

(c) WRECO hereby agrees that it will no longer be the issuer under the Indenture and the Notes; and

(d) WRECO hereby agrees to provide a Note Guarantee on the terms and subject to the conditions set forth in the notation of Guarantee and in the Indenture, including but not limited to, Article 10 thereof;

3. **N EW Y ORK L AW TO G OVERN** . **THE INTERNAL LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE THIS SUPPLEMENTAL INDENTURE WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.**

4. **C OUNTERPARTS** . The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. Delivery of an executed counterpart of a signature page to the Indenture by facsimile, email or other electronic means shall be effective as delivery of a manually executed counterpart of the Indenture.

5. **E FFECT OF H EADINGS** . The Section headings herein are for convenience only and shall not affect the construction hereof.

6. **T HE T RUSTEE** . The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by WRECO and TPH.

7. **B ENEFITS A CKNOWLEDGED** . WRECO acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by the Indenture and this Supplemental Indenture and that its obligation to become a Guarantor and the guarantee and waivers made by it pursuant to this Supplemental Indenture are knowingly made in contemplation of such benefits. TPH acknowledges that it will

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receive direct and indirect benefits from the financing arrangements contemplated by the Indenture and this Supplemental Indenture and that its agreement to become the Issuer of the Notes is made knowingly and in contemplation of such benefits.

8. **SUCCESSORS** . All agreements of TPH and WRECO in this Supplemental Indenture shall bind its successors, except as otherwise provided in the Indenture. All agreements of the Trustee in this Supplemental Indenture shall bind its successors.

9. **WAIVER OF JURY TRIAL** . EACH OF TPH, WRECO AND THE TRUSTEE HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS SUPPLEMENTAL INDENTURE.

10. **RATIFICATION OF THE INDENTURE** . Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, and every Holder of Notes heretofore or hereafter authenticated and delivered shall be bound hereby.

11. **NOTICES** . All notices and other communications to the Issuer shall be given as provided in the Indenture to the Issuer at the address for the Issuer and all notices and other communications to WRECO shall be given as provided in the Indenture to Guarantors, at the address set forth below, with a copy to the Issuer as provided in the Indenture for notices to the Issuer.

TRI POINTE HOMES, INC.  
PO Box 57088  
Irvine, CA 92619

Attention: Legal Department

Fax Number: (949) 478-8601

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed and attested, all as of the date first above written.

TRI POINTE HOMES, INC., as the Issuer

By: /s/ Michael D. Grubbs

Name: Michael D. Grubbs

Title: Chief Financial Officer

TRI POINTE HOLDINGS, INC. (f/k/a  
WEYERHAEUSER REAL ESTATE COMPANY),  
as a Guarantor

By: /s/ Michael D. Grubbs

Name: Michael D. Grubbs

Title: Chief Financial Officer

U.S. BANK NATIONAL ASSOCIATION,  
as Trustee

By: /s/ Georgina Thomas

Name: Georgina Thomas

Title: Assistant Vice President

[Signature Page to First Supplemental Indenture (2019 Notes)]

THIS FIRST SUPPLEMENTAL INDENTURE (this “*Supplemental Indenture*”), entered into as of July 7, 2014, among TRI Pointe Homes, Inc., a Delaware corporation (“*TPH*” and upon execution of this Supplemental Indenture by the parties hereto, the “*Issuer*” for all purposes of the Indenture and the Notes), TRI Pointe Holdings, Inc. (f/k/a Weyerhaeuser Real Estate Company), a Washington company (“*WRECO*”), and U.S. Bank National Association, as trustee (the “*Trustee*”). Capitalized terms used herein and not otherwise defined herein are used as defined in the Indenture referred to below.

## WITNESSETH

WHEREAS, WRECO has heretofore executed and delivered to the Trustee an indenture (the “*Indenture*”), dated as of June 13, 2014, providing for the issuance of 5.875% Senior Notes due 2024 (the “*Notes*”);

WHEREAS, the Indenture provides that upon consummation of the Combination, TPH shall execute and deliver this Supplemental Indenture and any other agreements, documents and instruments necessary or proper to cause TPH to become the issuer of the Notes and assume the obligations of an issuer under the Indenture;

WHEREAS, the Indenture provides that upon consummation of the Combination, WRECO shall execute and deliver any agreements, documents and instruments necessary or proper to (i) cause WRECO to become a Guarantor of the Notes and assume the obligations of a Guarantor under the Indenture and (ii) cause TPH to become the sole issuer of the Notes and assume the obligations of the issuer under the Indenture;

WHEREAS, TPH is to become the Issuer under the Indenture and the Notes and shall after execution and delivery of this Supplemental Indenture by the parties hereto assume all the obligations of an issuer under the Indenture and the Notes on the terms and conditions set forth herein;

WHEREAS, WRECO is to become a Guarantor under the Indenture and unconditionally guarantee, on a joint and several basis with any other Guarantors from time to time party to the Indenture, all of the Issuer’s obligations under the Notes and the Indenture on the terms and conditions set forth herein (the “*Note Guarantee*”);

WHEREAS, pursuant to Section 8.01(i) of the Indenture, WRECO and the Trustee are authorized to execute and deliver this Supplemental Indenture without the consent of Holders of the Notes; and

WHEREAS, all things necessary to make this Supplemental Indenture a valid indenture and agreement according to its terms have been done.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, TPH, WRECO and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

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1. **A MENDMENT** . This Supplemental Indenture is an amendment supplemental to the Indenture, and the Indenture and this Supplemental Indenture will henceforth be read together.

2. **A GREEMENT TO O BLIGE** .

(a) TPH hereby agrees to become a party to the Indenture as the Issuer and as such will have all of the rights and be subject to all of the obligations and agreements of the Issuer under the Indenture and the Notes, effective upon the execution and delivery of this Supplemental Indenture;

(b) WRECO hereby agrees to become a Guarantor and as such will have all of the rights and be subject to all of the obligations and agreements of a Guarantor under the Indenture, effective upon the execution and delivery of this Supplemental Indenture;

(c) WRECO hereby agrees that it will no longer be the issuer under the Indenture and the Notes; and

(d) WRECO hereby agrees to provide a Note Guarantee on the terms and subject to the conditions set forth in the notation of Guarantee and in the Indenture, including but not limited to, Article 10 thereof;

3. **N EW Y ORK L AW TO G OVERN** . **THE INTERNAL LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE THIS SUPPLEMENTAL INDENTURE WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.**

4. **C OUNTERPARTS** . The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. Delivery of an executed counterpart of a signature page to the Indenture by facsimile, email or other electronic means shall be effective as delivery of a manually executed counterpart of the Indenture.

5. **E FFECT OF H EADINGS** . The Section headings herein are for convenience only and shall not affect the construction hereof.

6. **T HE T RUSTEE** . The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by WRECO and TPH.

7. **B ENEFITS A CKNOWLEDGED** . WRECO acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by the Indenture and this Supplemental Indenture and that its obligation to become a Guarantor and the guarantee and waivers made by it pursuant to this Supplemental Indenture are knowingly made in contemplation of such benefits. TPH acknowledges that it will

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receive direct and indirect benefits from the financing arrangements contemplated by the Indenture and this Supplemental Indenture and that its agreement to become the Issuer of the Notes is made knowingly and in contemplation of such benefits.

8. **SUCCESSORS** . All agreements of TPH and WRECO in this Supplemental Indenture shall bind its successors, except as otherwise provided in the Indenture. All agreements of the Trustee in this Supplemental Indenture shall bind its successors.

9. **WAIVER OF JURY TRIAL** . EACH OF TPH, WRECO AND THE TRUSTEE HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS SUPPLEMENTAL INDENTURE.

10. **RATIFICATION OF THE INDENTURE** . Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, and every Holder of Notes heretofore or hereafter authenticated and delivered shall be bound hereby.

11. **NOTICES** . All notices and other communications to the Issuer shall be given as provided in the Indenture to the Issuer at the address for the Issuer and all notices and other communications to WRECO shall be given as provided in the Indenture to Guarantors, at the address set forth below, with a copy to the Issuer as provided in the Indenture for notices to the Issuer.

TRI POINTE HOMES, INC.  
PO Box 57088  
Irvine, CA 92619

Attention: Legal Department

Fax Number: (949) 478-8601

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed and attested, all as of the date first above written.

TRI POINTE HOMES, INC., as the Issuer

By: /s/ Michael D. Grubbs

Name: Michael D. Grubbs

Title: Chief Financial Officer

TRI POINTE HOLDINGS, INC. (f/k/a  
WEYERHAEUSER REAL ESTATE COMPANY), as a  
Guarantor

By: /s/ Michael D. Grubbs

Name: Michael D. Grubbs

Title: Chief Financial Officer

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: /s/ Georgina Thomas

Name: Georgina Thomas

Title: Assistant Vice President

[Signature Page to First Supplemental Indenture (2024 Notes)]

## SUPPLEMENTAL INDENTURE

SECOND SUPPLEMENTAL INDENTURE (this “*Supplemental Indenture*”), dated as of July 7, 2014 among TRI Pointe Homes, Inc. (the “*Issuer*”) the undersigned guarantors (each, a “*Guaranteeing Subsidiary*” and, collectively, the “*Guaranteeing Subsidiaries*”) and U.S. Bank National Association, a national banking association, as trustee (the “*Trustee*”).

## WITNESSETH

WHEREAS, TRI Pointe Holdings, Inc. (f/k/a Weyerhaeuser Real Estate Company), a Washington company (“WRECO”) has heretofore executed and delivered to the Trustee an Indenture (the “*Original Indenture*”), dated as of June 14, 2014 between WRECO and the Trustee, providing for the issuance of 4.375% Senior Notes due 2019 (the “*Notes*”), as amended by the First Supplemental Indenture, dated as of the date hereof (the “*First Supplemental Indenture*”, and together with the Original Indenture, the “*Indenture*”) among WRECO, the Issuer and the Trustee, providing for the assumption by the Issuer of WRECO’s obligations under the Indenture and the Notes;

WHEREAS, the Indenture provides that the Guaranteeing Subsidiaries shall execute and deliver to the Trustee a supplemental indenture pursuant to which the Guaranteeing Subsidiaries shall unconditionally guarantee all of the Issuer’s Obligations under the Notes and the Indenture on the terms and conditions set forth herein and under the Indenture (the “*Guarantees*”); and

WHEREAS, pursuant to Section 8.01(iv) of the Indenture, the Guaranteeing Subsidiaries and the Trustee are authorized to execute and deliver this Supplemental Indenture without the consent of Holders of the Notes.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties mutually covenant and agree for the equal and ratable benefit of the Holders as follows:

(1) Capitalized Terms. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

(2) Agreement to Guarantee. Each Guaranteeing Subsidiary acknowledges that it has received and reviewed a copy of the Indenture and all other documents it deems necessary to review in order to enter into this Supplemental Indenture, and acknowledges and agrees to (i) join and become a party to the Indenture as indicated by its signature below; (ii) be bound by the terms of the Indenture applicable to Guarantors, as of the date hereof, as if made by, and with respect to, each signatory hereto; and (iii) perform all obligations and duties required of a Guarantor pursuant to the Indenture. Each Guaranteeing Subsidiary hereby agrees to provide an unconditional Guarantee on the terms and subject to the conditions set forth in the Indenture, including, but not limited to, Article 10 thereof.

(3) Execution and Delivery. Each Guaranteeing Subsidiary agrees that its respective Guarantee shall remain in full force and effect notwithstanding the absence of the endorsement of any notation of such Guarantee on the Notes.

(4) No Recourse Against Others. No past, present or future director, officer, employee, incorporator, member, partner or stockholder of the Issuer or any Guaranteeing Subsidiary shall have any liability for any obligations of the Issuer or the Guarantors (including any Guaranteeing Subsidiary) under the Notes, any Guarantees, the Indenture or this Supplemental Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting Notes waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes.

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(5) New York Law Governs. THE INTERNAL LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE THIS SUPPLEMENTAL INDENTURE WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

(6) Counterparts. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. Delivery of an executed counterpart of a signature page to the Indenture by facsimile, email or other electronic means shall be effective as delivery of a manually executed counterpart of the Indenture.

(7) Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

(8) The Trustee. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by each Guaranteeing Subsidiary.

(9) Benefits Acknowledged. Each Guaranteeing Subsidiary's Guarantee is subject to the terms and conditions set forth in the Indenture. Each Guaranteeing Subsidiary acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by the Indenture and this Supplemental Indenture and that the guarantee and waivers made by it pursuant to this Guarantee are knowingly made in contemplation of such benefits.

(10) Successors. All agreements of each Guaranteeing Subsidiary in this Supplemental Indenture shall bind its respective Successors, except as otherwise provided in this Supplemental Indenture. All agreements of the Trustee in this Supplemental Indenture shall bind its successors.

(11) Waiver of Jury Trial. EACH OF THE GUARANTEEING SUBSIDIARIES AND THE TRUSTEE HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS SUPPLEMENTAL INDENTURE.

(12) Ratification of the Indenture. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, and every Holder of Notes heretofore or hereafter authenticated and delivered shall be bound hereby.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, all as of the date first above written.

TRI POINTE HOMES, INC.,  
as the Issuer

By: /s/ Michael D. Grubbs  
Name: Michael D. Grubbs  
Title: Chief Financial Officer

MARACAY 91, L.L.C.  
MARACAY HOMES, L.L.C.  
MARACAY BRIDGES, LLC  
MARACAY VR, LLC  
PARDEE HOMES  
PARDEE HOMES OF NEVADA  
THE QUADRANT CORPORATION  
TRENDMAKER HOMES, INC.  
WINCHESTER HOMES, INC,  
as Guaranteeing Subsidiaries

By: /s/ Michael D. Grubbs  
Name: Michael D. Grubbs  
Title: Chief Financial Officer

MARACAY THUNDERBIRD, L.L.C.,  
as Guaranteeing Subsidiary  
By: Maracay Homes, L.L.C., its Manager

By: /s/ Michael D. Grubbs  
Name: Michael D. Grubbs  
Title: Chief Financial Officer

TRI POINTE COMMUNITIES, INC.,  
as Guaranteeing Subsidiary

By: /s/ Michael D. Grubbs  
Name: Michael D. Grubbs  
Title: Chief Financial Officer

[Signature Page to Second Supplemental Indenture (2019 Notes)]

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TRI POINTE CONTRACTORS, LP,  
as Guaranteeing Subsidiary  
By: TRI Pointe Communities, Inc., its General Partner

By: /s/ Michael D. Grubbs  
Name: Michael D. Grubbs  
Title: Chief Financial Officer

[Signature Page to Second Supplemental Indenture (2019 Notes)]

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U.S. BANK NATIONAL ASSOCIATION,  
as Trustee

By: /s/ Georgina Thomas  
Name: Georgina Thomas  
Title: Assistant Vice President

[Signature Page to Second Supplemental Indenture (2019 Notes)]

## SUPPLEMENTAL INDENTURE

SECOND SUPPLEMENTAL INDENTURE (this “*Supplemental Indenture*”), dated as of July 7, 2014 among TRI Pointe Homes, Inc. (the “*Issuer*”) the undersigned guarantors (each, a “*Guaranteeing Subsidiary*” and, collectively, the “*Guaranteeing Subsidiaries*”) and U.S. Bank National Association, a national banking association, as trustee (the “*Trustee*”).

## WITNESSETH

WHEREAS, TRI Pointe Holdings, Inc. (f/k/a Weyerhaeuser Real Estate Company), a Washington company (“WRECO”) has heretofore executed and delivered to the Trustee an Indenture (the “*Original Indenture*”), dated as of June 14, 2014 between WRECO and the Trustee, providing for the issuance of 5.875% Senior Notes due 2024 (the “*Notes*”), as amended by the First Supplemental Indenture, dated as of the date hereof (the “*First Supplemental Indenture*”, and together with the Original Indenture, the “*Indenture*”) among WRECO, the Issuer and the Trustee, providing for the assumption by the Issuer of WRECO’s obligations under the Indenture and the Notes;

WHEREAS, the Indenture provides that the Guaranteeing Subsidiaries shall execute and deliver to the Trustee a supplemental indenture pursuant to which the Guaranteeing Subsidiaries shall unconditionally guarantee all of the Issuer’s Obligations under the Notes and the Indenture on the terms and conditions set forth herein and under the Indenture (the “*Guarantees*”); and

WHEREAS, pursuant to Section 8.01(iv) of the Indenture, the Guaranteeing Subsidiaries and the Trustee are authorized to execute and deliver this Supplemental Indenture without the consent of Holders of the Notes.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties mutually covenant and agree for the equal and ratable benefit of the Holders as follows:

(1) Capitalized Terms. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

(2) Agreement to Guarantee. Each Guaranteeing Subsidiary acknowledges that it has received and reviewed a copy of the Indenture and all other documents it deems necessary to review in order to enter into this Supplemental Indenture, and acknowledges and agrees to (i) join and become a party to the Indenture as indicated by its signature below; (ii) be bound by the terms of the Indenture applicable to Guarantors, as of the date hereof, as if made by, and with respect to, each signatory hereto; and (iii) perform all obligations and duties required of a Guarantor pursuant to the Indenture. Each Guaranteeing Subsidiary hereby agrees to provide an unconditional Guarantee on the terms and subject to the conditions set forth in the Indenture, including, but not limited to, Article 10 thereof.

(3) Execution and Delivery. Each Guaranteeing Subsidiary agrees that its respective Guarantee shall remain in full force and effect notwithstanding the absence of the endorsement of any notation of such Guarantee on the Notes.

(4) No Recourse Against Others. No past, present or future director, officer, employee, incorporator, member, partner or stockholder of the Issuer or any Guaranteeing Subsidiary shall have any liability for any obligations of the Issuer or the Guarantors (including any Guaranteeing Subsidiary) under the Notes, any Guarantees, the Indenture or this Supplemental Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting Notes waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes.

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(5) New York Law Governs. THE INTERNAL LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE THIS SUPPLEMENTAL INDENTURE WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

(6) Counterparts. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. Delivery of an executed counterpart of a signature page to the Indenture by facsimile, email or other electronic means shall be effective as delivery of a manually executed counterpart of the Indenture.

(7) Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

(8) The Trustee. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by each Guaranteeing Subsidiary.

(9) Benefits Acknowledged. Each Guaranteeing Subsidiary's Guarantee is subject to the terms and conditions set forth in the Indenture. Each Guaranteeing Subsidiary acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by the Indenture and this Supplemental Indenture and that the guarantee and waivers made by it pursuant to this Guarantee are knowingly made in contemplation of such benefits.

(10) Successors. All agreements of each Guaranteeing Subsidiary in this Supplemental Indenture shall bind its respective Successors, except as otherwise provided in this Supplemental Indenture. All agreements of the Trustee in this Supplemental Indenture shall bind its successors.

(11) Waiver of Jury Trial. EACH OF THE GUARANTEEING SUBSIDIARIES AND THE TRUSTEE HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS SUPPLEMENTAL INDENTURE.

(12) Ratification of the Indenture. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, and every Holder of Notes heretofore or hereafter authenticated and delivered shall be bound hereby.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, all as of the date first above written.

TRI POINTE HOMES, INC.,  
as the Issuer

By: /s/ Michael D. Grubbs  
Name: Michael D. Grubbs  
Title: Chief Financial Officer

MARACAY 91, L.L.C.  
MARACAY HOMES, L.L.C.  
MARACAY BRIDGES, LLC  
MARACAY VR, LLC  
PARDEE HOMES  
PARDEE HOMES OF NEVADA  
THE QUADRANT CORPORATION  
TRENDMAKER HOMES, INC.  
WINCHESTER HOMES, INC,  
as Guaranteeing Subsidiaries

By: /s/ Michael D. Grubbs  
Name: Michael D. Grubbs  
Title: Chief Financial Officer

MARACAY THUNDERBIRD, L.L.C.,  
as Guaranteeing Subsidiary  
By: Maracay Homes, L.L.C., its Manager

By: /s/ Michael D. Grubbs  
Name: Michael D. Grubbs  
Title: Chief Financial Officer

TRI POINTE COMMUNITIES, INC.,  
as Guaranteeing Subsidiary

By: /s/ Michael D. Grubbs  
Name: Michael D. Grubbs  
Title: Chief Financial Officer

[Signature Page to Second Supplemental Indenture (2024 Notes)]

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TRI POINTE CONTRACTORS, LP,  
as Guaranteeing Subsidiary  
By: TRI Pointe Communities, Inc., its General Partner

By: /s/ Michael D. Grubbs  
Name: Michael D. Grubbs  
Title: Chief Financial Officer

[Signature Page to Second Supplemental Indenture (2024 Notes)]

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U.S. BANK NATIONAL ASSOCIATION,  
as Trustee

By: /s/ Georgina Thomas  
Name: Georgina Thomas  
Title: Assistant Vice President

[Signature Page to Second Supplemental Indenture (2024 Notes)]

**JOINDER AGREEMENT**

with respect to the

**PURCHASE AGREEMENT**

for

**WEYERHAEUSER REAL ESTATE COMPANY**

**4.375% Senior Notes due 2019**

**5.875% Senior Notes due 2024**

July 7, 2014

Citigroup Global Markets Inc.  
Deutsche Bank Securities Inc.  
As Representatives of the Initial Purchasers

c/o Citigroup Global Markets Inc.  
388 Greenwich Street  
New York, New York 10013

Ladies and Gentlemen:

Reference is hereby made to that certain purchase agreement, dated as of June 4, 2014 (the "Purchase Agreement"), among Weyerhaeuser Real Estate Company, a Washington corporation (the "Company"), TRI Pointe Homes, Inc., a Delaware corporation ("TPH") and Citigroup Global Markets Inc. and Deutsche Bank Securities Inc., as representatives of the initial purchasers named therein (collectively, the "Initial Purchasers"), providing for the issuance and sale of the Securities. Immediately after the consummation of the Merger, each of the Merger Date Guarantors are required to join in the Purchase Agreement. Unless otherwise defined herein, capitalized terms used but not defined herein shall have the respective meanings given them in the Purchase Agreement.

Each Merger Date Guarantor hereby agrees for the benefit of the Initial Purchasers, as follows:

1. Each of the undersigned hereby acknowledges that it has received and reviewed a copy of the Purchase Agreement and all other documents it deems fit in order to enter into this Joinder Agreement, and acknowledges and agrees to (i) join and become a party to the Purchase Agreement as indicated by its signature below; (ii) be bound by all covenants, agreements and acknowledgements attributable to a Guarantor in the Purchase Agreement, as of the date thereof, as if made by, and with respect to, each signatory hereto; (iii) make all representations and warranties attributable to a Guarantor, as applicable, as of the date thereof, as if made by, and with respect to, each signatory hereto; and (iv) perform all obligations and duties required of a Guarantor, as applicable, pursuant to the Purchase Agreement.

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2. Each of the undersigned hereby represents and warrants to and agrees with the Initial Purchasers that it has all the requisite corporate, limited liability company or other power and authority to execute, deliver and perform its obligations under this Joinder Agreement and the Purchase Agreement, that this Joinder Agreement has been duly authorized, executed and delivered and that the consummation of the transactions contemplated hereby has been duly and validly authorized.

This Joinder Agreement does not cancel, extinguish, limit or otherwise adversely affect any right or obligation of the parties under the Purchase Agreement. The undersigned acknowledges and agrees that all of the provisions of each of the Purchase Agreement shall remain in full force and effect.

This Joinder Agreement may be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may be given, provided that the same are in writing and signed by all of the signatories hereto.

This Joinder Agreement may be signed in various counterparts, which together shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Joinder Agreement by facsimile transmission shall be effective as delivery of a manually signed counterpart.

**THIS JOINDER AGREEMENT AND ANY CLAIM, CONTROVERSY OR DISPUTE ARISING UNDER OR RELATING TO THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.**

[Signature Page Follows]

Please confirm that the foregoing correctly sets forth the agreement among each Merger Date Guarantor and the Initial Purchasers.

TRI POINTE HOLDINGS, INC.  
MARACAY 91, L.L.C.  
MARACAY HOMES, L.L.C.  
MARACAY BRIDGES, LLC  
MARACAY VR, LLC  
PARDEE HOMES  
PARDEE HOMES OF NEVADA  
THE QUADRANT CORPORATION  
TRENDMAKER HOMES, INC.  
WINCHESTER HOMES, INC,

By /s/ Michael D. Grubbs

Name: Michael D. Grubbs

Title: Chief Financial Officer

MARACAY THUNDERBIRD, L.L.C.,  
By: Maracay Homes, L.L.C., its Manager

By /s/ Michael D. Grubbs

Name: Michael D. Grubbs

Title: Chief Financial Officer

TRI POINTE COMMUNITIES, INC.,

By: /s/ Michael D. Grubbs

Name: Michael D. Grubbs

Title: Chief Financial Officer

TRI POINTE CONTRACTORS, LP,

By: TRI Pointe Communities, Inc., its General Partner

By: /s/ Michael D. Grubbs

Name: Michael D. Grubbs

Title: Chief Financial Officer

[Signature Page to Purchase Agreement Joinder]

JOINDER AGREEMENT TO REGISTRATION RIGHTS AGREEMENT  
July 7, 2014

Reference is hereby made to the Registration Rights Agreement, dated as of June 13, 2014 (the "Registration Rights Agreement"), by and among Weyerhaeuser Real Estate Company (the "Issuer") and the Representatives on behalf of the several Initial Purchasers concerning registration rights relating to the Issuer's 4.375% Senior Notes due 2019 (the "Securities"). Unless otherwise defined herein, terms defined in the Registration Rights Agreement and used herein shall have the meanings given them in the Registration Rights Agreement.

1. Joinder. The undersigned hereby acknowledges that it has received a copy of the Registration Rights Agreement and absolutely, unconditionally and irrevocably acknowledges and agrees with the Initial Purchasers that by its execution and delivery hereof it shall (i) join and become a party to the Registration Rights Agreement and be deemed to be the Issuer under the Registration Rights Agreement; (ii) be bound by all covenants, agreements, representations, warranties and acknowledgements applicable to such party as set forth in and in accordance with the terms of the Registration Rights Agreement; and (iii) perform all obligations and duties as required of it as the Issuer in accordance with the Registration Rights Agreement.

2. Governing Law. This Joinder Agreement and any claim, controversy or dispute arising under or related to this Joinder Agreement shall be governed by and construed in accordance with the laws of the State of New York.

3. Counterparts. This Joinder Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

4. Amendments. No amendment or waiver of any provision of this Joinder Agreement, nor any consent or approval to any departure therefrom, shall in any event be effective unless the same shall be in writing and signed by the parties hereto.

5. Headings. The headings in this Joinder Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

[Signature Page Follows]

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IN WITNESS WHEREOF, the undersigned has executed this Joinder Agreement as of the date first written above.

TRI POINTE HOMES, INC.

By: /s/ Michael D. Grubbs  
Name: Michael D. Grubbs  
Title: Chief Financial Officer

[Signature Page to Registration Rights Joinder (2019 Notes)]

JOINDER AGREEMENT TO REGISTRATION RIGHTS AGREEMENT  
July 7, 2014

Reference is hereby made to the Registration Rights Agreement, dated as of June 13, 2014 (the "Registration Rights Agreement"), by and among Weyerhaeuser Real Estate Company (the "Issuer") and the Representatives on behalf of the several Initial Purchasers concerning registration rights relating to the Issuer's 5.875% Senior Notes due 2024 (the "Securities"). Unless otherwise defined herein, terms defined in the Registration Rights Agreement and used herein shall have the meanings given them in the Registration Rights Agreement.

1. Joinder. The undersigned hereby acknowledges that it has received a copy of the Registration Rights Agreement and absolutely, unconditionally and irrevocably acknowledges and agrees with the Initial Purchasers that by its execution and delivery hereof it shall (i) join and become a party to the Registration Rights Agreement and be deemed to be the Issuer under the Registration Rights Agreement; (ii) be bound by all covenants, agreements, representations, warranties and acknowledgements applicable to such party as set forth in and in accordance with the terms of the Registration Rights Agreement; and (iii) perform all obligations and duties as required of it as the Issuer in accordance with the Registration Rights Agreement.

2. Governing Law. This Joinder Agreement and any claim, controversy or dispute arising under or related to this Joinder Agreement shall be governed by and construed in accordance with the laws of the State of New York.

3. Counterparts. This Joinder Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

4. Amendments. No amendment or waiver of any provision of this Joinder Agreement, nor any consent or approval to any departure therefrom, shall in any event be effective unless the same shall be in writing and signed by the parties hereto.

5. Headings. The headings in this Joinder Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

[Signature Page Follows]

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IN WITNESS WHEREOF, the undersigned has executed this Joinder Agreement as of the date first written above.

TRI POINTE HOMES, INC.

By: /s/ Michael D. Grubbs  
Name: Michael D. Grubbs  
Title: Chief Financial Officer

[Signature Page to Registration Rights Joinder (2024 Notes)]

JOINDER AGREEMENT TO REGISTRATION RIGHTS AGREEMENT  
July 7, 2014

Reference is hereby made to the Registration Rights Agreement, dated as of June 13, 2014 (the "Registration Rights Agreement"), by and among Weyerhaeuser Real Estate Company (the "Issuer") and the Representatives on behalf of the several Initial Purchasers concerning registration rights relating to the Issuer's 4.375% Senior Notes due 2019 (the "Securities"). Unless otherwise defined herein, terms defined in the Registration Rights Agreement and used herein shall have the meanings given them in the Registration Rights Agreement.

1. Joinder. Each of the undersigned hereby acknowledges that it has received a copy of the Registration Rights Agreement and absolutely, unconditionally and irrevocably acknowledges and agrees with the Initial Purchasers that by its execution and delivery hereof it shall (i) join and become a party to the Registration Rights Agreement and be deemed to be a Guarantor under the Registration Rights Agreement; (ii) be bound by all covenants, agreements, representations, warranties and acknowledgements applicable to such party as set forth in and in accordance with the terms of the Registration Rights Agreement; and (iii) perform all obligations and duties as required of it as a Guarantor in accordance with the Registration Rights Agreement.

2. Governing Law. This Joinder Agreement and any claim, controversy or dispute arising under or related to this Joinder Agreement shall be governed by and construed in accordance with the laws of the State of New York.

3. Counterparts. This Joinder Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

4. Amendments. No amendment or waiver of any provision of this Joinder Agreement, nor any consent or approval to any departure therefrom, shall in any event be effective unless the same shall be in writing and signed by the parties hereto.

5. Headings. The headings in this Joinder Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

[Signature Page Follows]

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IN WITNESS WHEREOF, the undersigned have executed this Joinder Agreement as of the date first written above.

TRI POINTE HOLDINGS, INC.  
MARACAY 91, L.L.C.  
MARACAY HOMES, L.L.C.  
MARACAY BRIDGES, LLC  
MARACAY VR, LLC  
PARDEE HOMES  
PARDEE HOMES OF NEVADA  
THE QUADRANT CORPORATION  
TRENDMAKER HOMES, INC.  
WINCHESTER HOMES, INC,

By: /s/ Michael D. Grubbs  
Name: Michael D. Grubbs  
Title: Chief Financial Officer

MARACAY THUNDERBIRD, L.L.C.,  
By: Maracay Homes, L.L.C., its Manager

By: /s/ Michael D. Grubbs  
Name: Michael D. Grubbs  
Title: Chief Financial Officer

TRI POINTE COMMUNITIES, INC.,

By: /s/ Michael D. Grubbs  
Name: Michael D. Grubbs  
Title: Chief Financial Officer

TRI POINTE CONTRACTORS, LP,  
By: TRI Pointe Communities, Inc., its General Partner

By: /s/ Michael D. Grubbs  
Name: Michael D. Grubbs  
Title: Chief Financial Officer

[Signature Page to Registration Rights Joinder (2019 Notes)]

JOINDER AGREEMENT TO REGISTRATION RIGHTS AGREEMENT  
July 7, 2014

Reference is hereby made to the Registration Rights Agreement, dated as of June 13, 2014 (the “Registration Rights Agreement”), by and among Weyerhaeuser Real Estate Company (the “Issuer”) and the Representatives on behalf of the several Initial Purchasers concerning registration rights relating to the Issuer’s 5.875% Senior Notes due 2024 (the “Securities”). Unless otherwise defined herein, terms defined in the Registration Rights Agreement and used herein shall have the meanings given them in the Registration Rights Agreement.

1. Joinder. Each of the undersigned hereby acknowledges that it has received a copy of the Registration Rights Agreement and absolutely, unconditionally and irrevocably acknowledges and agrees with the Initial Purchasers that by its execution and delivery hereof it shall (i) join and become a party to the Registration Rights Agreement and be deemed to be a Guarantor under the Registration Rights Agreement; (ii) be bound by all covenants, agreements, representations, warranties and acknowledgements applicable to such party as set forth in and in accordance with the terms of the Registration Rights Agreement; and (iii) perform all obligations and duties as required of it as a Guarantor in accordance with the Registration Rights Agreement.

2. Governing Law. This Joinder Agreement and any claim, controversy or dispute arising under or related to this Joinder Agreement shall be governed by and construed in accordance with the laws of the State of New York.

3. Counterparts. This Joinder Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

4. Amendments. No amendment or waiver of any provision of this Joinder Agreement, nor any consent or approval to any departure therefrom, shall in any event be effective unless the same shall be in writing and signed by the parties hereto.

5. Headings. The headings in this Joinder Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

[Signature Page Follows]

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IN WITNESS WHEREOF, the undersigned have executed this Joinder Agreement as of the date first written above.

TRI POINTE HOLDINGS, INC.  
MARACAY 91, L.L.C.  
MARACAY HOMES, L.L.C.  
MARACAY BRIDGES, LLC  
MARACAY VR, LLC  
PARDEE HOMES  
PARDEE HOMES OF NEVADA  
THE QUADRANT CORPORATION  
TRENDMAKER HOMES, INC.  
WINCHESTER HOMES, INC,

By: /s/ Michael D. Grubbs  
Name: Michael D. Grubbs  
Title: Chief Financial Officer

MARACAY THUNDERBIRD, L.L.C.,  
By: Maracay Homes, L.L.C., its Manager

By: /s/ Michael D. Grubbs  
Name: Michael D. Grubbs  
Title: Chief Financial Officer

TRI POINTE COMMUNITIES, INC.,

By: /s/ Michael D. Grubbs  
Name: Michael D. Grubbs  
Title: Chief Financial Officer

TRI POINTE CONTRACTORS, LP,  
By: TRI Pointe Communities, Inc., its General Partner

By: /s/ Michael D. Grubbs  
Name: Michael D. Grubbs  
Title: Chief Financial Officer

[Signature Page to Registration Rights Joinder (2024 Notes)]

## TAX SHARING AGREEMENT

THIS TAX SHARING AGREEMENT, dated as of July 7, 2014 (this “Agreement”), is among Weyerhaeuser Company, a Washington corporation (“Weyerhaeuser”), Weyerhaeuser Real Estate Company, a Washington corporation (“WRECO”), and TRI Pointe Homes, Inc., a Delaware corporation (“Parent”).

WHEREAS, prior to the date hereof, Weyerhaeuser, WRECO, Parent and Topaz Acquisition, Inc., a Washington corporation and a wholly owned subsidiary of Parent (“Merger Sub”), entered into a Transaction Agreement, dated as of November 3, 2013 (the “Transaction Agreement”), providing for, among other things, (i) the distribution by Weyerhaeuser NR Company, a Washington corporation and a wholly owned subsidiary of Weyerhaeuser (“WNR”), to Weyerhaeuser of all the issued and outstanding common shares of WRECO (the “WRECO Spin”), (ii) the distribution by Weyerhaeuser of all the issued and outstanding common shares of WRECO, on a pro rata basis, or, at Weyerhaeuser’s election, in an exchange offer, or a combination thereof, to some or all of its shareholders (the “Distribution”) and (iii) the merger of Merger Sub with and into WRECO (the “Merger”), with WRECO surviving the Merger and becoming a wholly owned subsidiary of Parent, in each case on the terms and subject to the conditions set forth in the Transaction Agreement;

WHEREAS, prior to January 1, 2010, Weyerhaeuser was the parent of an affiliated group within the meaning of Section 1504(a) of the Code that included WRECO;

WHEREAS, after December 31, 2009, Weyerhaeuser elected to be taxed as a real estate investment trust, and WNR became the parent of an affiliated group within the meaning of Section 1504(a) of the Code that included WRECO; and

WHEREAS the parties hereto intend the Transactions to qualify for the Intended Tax Treatment.

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

### ARTICLE I

#### Definitions; Interpretation

SECTION 1.01. Definitions. (a) For purposes of this Agreement, the following terms shall have the following meanings:

“Active Trade or Business” means the active conduct (determined in accordance with Section 355(b) of the Code) of the business conducted by the WRECO Group members. For these purposes, members shall include only those members that are part of WRECO’s “separate affiliated group” within the meaning of Section 355(b)(3)(B) of the Code.

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“ Additional Costs ” means losses, damages or expenses, including reasonable legal fees and expenses, to the extent arising or resulting from the imposition, assessment or assertion of any Tax or adjustment against a party with respect to an amount for which such party is entitled to indemnification under this Agreement.

“ Adjustment Request ” means any formal or informal claim or request for a Refund filed with any Taxing Authority.

“ Agreement ” has the meaning set forth in the preamble.

“ Applicable Penalty Standard ” means the standard under applicable Law for avoiding the imposition of penalties on the taxpayer and/or the tax return preparer.

“ Code ” means the U.S. Internal Revenue Code of 1986, as amended, and the Treasury regulations promulgated thereunder.

“ Covered Compensation Arrangement ” has the meaning set forth in Section 4.02(b)(i).

“ Distribution ” has the meaning set forth in the recitals.

“ Equity Compensation Opinion ” means an opinion obtained by Parent (at its sole expense), in form and substance reasonably satisfactory to Weyerhaeuser, providing that (i) the issuance of options, restricted stock and/or deferred stock units in respect of Parent Capital Stock or WRECO Capital Stock, as the case may be, to a Safe Harbor VIII Person or a Parent retirement plan (or other eligible retirement plan under Safe Harbor IX in Treasury Regulation Section 1.355-7(d)), as applicable, would not affect the Intended Tax Treatment and (ii) the shares of Parent Capital Stock or WRECO Capital Stock issued upon the exercise or vesting of the options, restricted stock and/or deferred stock units described in clause (i) above would satisfy the requirements of Safe Harbor VIII or Safe Harbor IX of Treasury Regulation Section 1.355-7(d), as applicable. Any Equity Compensation Opinion shall be delivered by nationally recognized U.S. tax counsel acceptable to Weyerhaeuser.

“ Final Determination ” means the final resolution of any Tax liability for any Tax period by or as a result of (i) a final and unappealable decision, judgment, decree or other order by any court of competent jurisdiction, (ii) a final settlement with the IRS, a closing agreement or accepted offer in compromise under Section 7121 or 7122 of the Code, or a comparable arrangement under the Laws of another jurisdiction, (iii) any allowance of a Refund in respect of an overpayment of Tax, but only after the expiration of all periods during which such amount may be recovered by the jurisdiction imposing such Tax or (iv) any other final disposition, including by reason of the expiration of the applicable statute of limitations.

“ Income Tax ” means any income tax imposed by Title 26 of the Code, or any similar provision of state, local or foreign Tax Law.

“ Indemnifying Party ” has the meaning set forth in Section 5.01.

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“Indemnitee” has the meaning set forth in Section 5.01.

“IRS” means the U.S. Internal Revenue Service.

“Joint Return” means any Tax Return (including any consolidated, combined or unitary Tax Return) that includes at least one Weyerhaeuser Group member and at least one WRECO Group member.

“Merger” has the meaning set forth in the recitals.

“Merger Sub” has the meaning set forth in the recitals.

“Non-Income Tax Return” has the meaning set forth in Section 3.01(d).

“Option Amount” means an amount, in the aggregate, of options, restricted stock, and deferred stock units which, if and when exercised or acquired, would result in Parent issuing a number of shares of Parent Capital Stock equal to 10% of the shares of Parent Capital Stock outstanding immediately after the Effective Time.

“Parent” has the meaning set forth in the preamble.

“Parent Capital Stock” means (i) all classes or series of outstanding capital stock of Parent for U.S. federal income Tax purposes, including common stock and all other instruments treated as outstanding equity in Parent for U.S. federal income Tax purposes, and (ii) all options, warrants and other rights to acquire such capital stock.

“Parent Representation Letter” means the representation letters executed by Parent in connection with the Tax Opinion and the Parent Merger Tax Opinion.

“Parent Section 355(e) Event” means any event(s) involving Parent Capital Stock or any assets of the RMT Group which cause the Distribution to be a taxable event as a result of the application of Section 355(e) of the Code or a similar provision of state or local Tax Law. For the avoidance of doubt, an event involving Parent Capital Stock or any assets of Parent or any of its Affiliates shall include, without limitation, the Merger.

“Penalty Objection” means a non-preparing party’s good faith, written determination that a position taken by a preparing party on a draft WRECO Separate Return subject to Section 3.01(b) would not satisfy the Applicable Penalty Standard.

“Post-Distribution Period” means any taxable period beginning after the Distribution Date.

“Pre-Distribution Period” means any taxable period ending on or before the close of the Distribution Date.

“Pre-Transaction Agreement Period” means any Tax period ending on or before the date of the Transaction Agreement, and, solely for purposes of Article II, the portion of any Straddle Period ending on or before the date of the Transaction Agreement.

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“Refund” means any cash refund of Taxes or reduction of Taxes by means of credit, offset or otherwise, together with any interest received thereon.

“Restricted Period” means the period commencing upon the Closing Date and ending at the close of business on the first day following the second anniversary of the Closing Date.

“RMT Group” means Parent and each of its Subsidiaries and the WRECO Group (in each case, including any successors thereof).

“RMT Issue” has the meaning set forth in Section 5.02.

“Ruling” means a private letter ruling from the IRS, in form and substance reasonably satisfactory to Weyerhaeuser, providing that the completion of a proposed action by the RMT Group (or any member thereof) prohibited by Section 4.02(b) or (c) would not affect the Intended Tax Treatment.

“Safe Harbor VIII Person” means a Parent or WRECO employee, independent contractor, director or other Person permitted to receive Parent Capital Stock or WRECO Capital Stock under Safe Harbor VIII in Treasury Regulation Section 1.355-7(d).

“Straddle Period” means a Tax period beginning on or before and ending after the date of the Transaction Agreement.

“Tax” or “Taxes” means all forms of taxation, whenever created or imposed, and whether of the United States or elsewhere, and whether imposed by a federal, state, municipal, governmental, territorial, local, foreign or other body, and without limiting the generality of the foregoing, shall include net income, gross income, gross receipts, sales, use, value added, ad valorem, transfer, recording, franchise, profits, license, lease, service, service use, payroll, wage, withholding, employment, unemployment insurance, workers compensation, social security, excise, severance, stamp, business license, business organization, occupation, premium, property, environmental, windfall profits, customs, duties, alternative minimum, estimated or other taxes, fees, premiums, assessments or charges of any kind whatever imposed or collected by any Governmental Entity or political subdivision thereof, together with any related interest and any penalties, additions to such tax or additional amounts imposed with respect thereto by such Governmental Entity or political subdivision.

“Tax Advisor” has the meaning set forth in Section 6.01.

“Tax Contest” means an audit, review, examination or any other administrative or judicial proceeding with the purpose or effect of redetermining Taxes (including any administrative or judicial review of any Adjustment Request).

“Tax Opinion” means the opinion obtained by Weyerhaeuser with respect to the Intended Tax Treatment of the WRECO Spin, the Distribution and the Merger.

“Tax Records” means any Tax Returns, Tax Return work papers, documentation relating to any Tax Contests, and any other books of account or records (whether or not in written, electronic, or other tangible or intangible forms and whether or not stored on electronic or any other medium) required to be maintained under the Code or other applicable Tax Laws or under any record retention agreement with any Taxing Authority.

“Tax Return” means any return, filing, report, questionnaire, information statement, claim for Refund, or other document required or permitted to be filed, including any amendments thereto, for any Tax period with any Taxing Authority.

“Taxing Authority” means any Governmental Entity imposing Taxes.

“Transaction Agreement” has the meaning set forth in the recitals.

“Transaction Taxes” means (i) all Taxes of any Weyerhaeuser Group or WRECO Group member, as the case may be, resulting from, or arising in connection with, the failure of any of the WRECO Spin, the Distribution and the Merger to qualify for the Intended Tax Treatment, and (ii) all corresponding state and local income and franchise Taxes.

“Transfer Taxes” means any stamp, sales, use, gross receipts, value added, goods and services, harmonized sales, land transfer or other transfer Taxes imposed in connection with the Transactions. For the avoidance of doubt, Transfer Taxes shall not include any income or franchise Taxes payable in connection with the Transactions.

“Transfer Tax Returns” means any Tax Return with respect to any Transfer Taxes imposed in connection with the Transactions.

“Unqualified Opinion” means an opinion obtained by Parent or WRECO (at its sole expense), in form and substance reasonably satisfactory to Weyerhaeuser, providing that the completion of a proposed action by the RMT Group (or any member thereof) prohibited by Section 4.02(b) or (c) would not affect the Intended Tax Treatment. Any Unqualified Opinion shall be delivered by nationally recognized U.S. tax counsel acceptable to Weyerhaeuser.

“Weyerhaeuser” has the meaning set forth in the preamble.

“Weyerhaeuser Affiliated Group” means, prior to January 1, 2010, Weyerhaeuser and each of its Subsidiaries, including any corporations that would be members of an affiliated group if they were includible corporations under Section 1504(b) of the Code (in each case, including any successors thereof).

“Weyerhaeuser Group” means Weyerhaeuser, the Weyerhaeuser Affiliated Group and the WNR Affiliated Group.

“Weyerhaeuser Group Taxes” means, in each case other than Transfer Taxes and Transaction Taxes, (i) any Income Tax imposed on or payable by the Weyerhaeuser Affiliated Group or any member thereof for any Tax period, (ii) any Income Tax imposed on or payable by the WNR Affiliated Group or any member thereof for any Tax period, (iii) any Income Tax

imposed on Weyerhaeuser for any period after December 31, 2009, (iv) any Tax other than Income Tax imposed on or payable by the Weyerhaeuser Group or any member thereof for any Tax period, (v) any Tax imposed on or payable by the WRECO Group or any member thereof for any Pre-Transaction Agreement Period, and (vi) all Taxes of any and all members of the Weyerhaeuser Group for any period by reason of any member of the WRECO Group being liable for such Taxes pursuant to Treasury Regulation Section 1.1502-6 or any analogous provision of state, local or foreign law or as a transferee, successor or otherwise.

“Weyerhaeuser Issue” has the meaning set forth in Section 5.02(b).

“Weyerhaeuser Representation Letter” means the representation letters executed by Weyerhaeuser in connection with the delivery of the Tax Opinion and the Parent Merger Tax Opinion.

“Weyerhaeuser Tax Assets” has the meaning set forth in Section 2.04.

“Weyerhaeuser Tax Attribute” means (i) any deductions or losses associated with WRI or the Coyote Springs Excluded Assets with respect to both federal and state Taxes and (ii) any Tax credits under Section 38 of the Code reflected on a Joint Return.

“WNR” has the meaning set forth in the recitals.

“WNR Affiliated Group” means, after December 31, 2009, WNR and each of its Subsidiaries, including any corporations that would be members of an affiliated group if they were includible corporations under Section 1504(b) of the Code (in each case, including any successors thereof), but excluding any entity that is a member of the WRECO Group.

“WRECO” has the meaning set forth in the preamble.

“WRECO Capital Stock” means (i) all classes or series of outstanding capital stock of WRECO for U.S. federal income Tax purposes, including common stock and all other instruments treated as outstanding equity in WRECO for U.S. federal income Tax purposes, and (ii) all options, warrants and other rights to acquire such capital stock.

“WRECO Group” means WRECO and each of its Subsidiaries, including any corporations that would be members of an affiliated group if they were includible corporations under Section 1504(b) of the Code (in each case, including any successors thereof), except for Pardee Coyote, WRI and any Subsidiary of WRI.

“WRECO Group Taxes” means, in each case other than Transfer Taxes and Transaction Taxes, (i) any Tax imposed on or payable by the WRECO Group or any member thereof for a Tax period beginning after the date of the Transaction Agreement, and (ii) any Tax imposed on or payable by the WRECO Group or any member thereof for the portion of a Straddle Period beginning after the date of the Transaction Agreement (other than any such Tax payable solely by reason of membership in any affiliated, consolidated, combined or unitary group at any time on or prior to the date of the Transaction Agreement, including by reason of Treasury Regulation Section 1.1502-6).

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“WRECO Separate Return” means any Tax Return (other than a Joint Return) that includes any WRECO Group member (including any consolidated, combined or unitary Tax Return).

“WRECO Spin” has the meaning set forth in the recitals.

“Weyerhaeuser Subsidiary” shall have the meaning given to such term in the Transaction Agreement. For purposes of this Agreement, neither WRECO nor any WRECO Subsidiary shall be a Weyerhaeuser Subsidiary.

(b) Capitalized terms used but not defined herein shall have the meanings given to such terms in the Transaction Agreement.

SECTION 1.02. Interpretation. When a reference is made in this Agreement to a Section, such reference shall be to a Section of this Agreement unless otherwise indicated. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words “include”, “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation”. The words “hereof”, “hereby”, “herein” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms. Each of the parties hereto has participated in the drafting and negotiation of this Agreement. If any ambiguity or question of intent or interpretation arises, this Agreement must be construed as if it is drafted by all the parties hereto, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of authorship of any of the provisions of this Agreement.

## ARTICLE II

### Allocation of Taxes

SECTION 2.01. Ordinary Course Taxes. (a) Except as provided in Sections 2.02 and 2.03, Weyerhaeuser shall be responsible for, and shall indemnify, defend and hold harmless each RMT Group member from and against, all Weyerhaeuser Group Taxes.

(b) Except as provided in Sections 2.02 and 2.03, Parent shall be responsible for, and shall indemnify, defend and hold harmless Weyerhaeuser and each Weyerhaeuser Subsidiary from and against, all WRECO Group Taxes.

(c) If, with respect to any WRECO Group Tax, Weyerhaeuser or any Weyerhaeuser Subsidiary receives (or realizes) a Refund, Weyerhaeuser shall remit, or cause to be remitted, to WRECO, within 30 days, the amount of such Refund net of any Taxes incurred by Weyerhaeuser and the Weyerhaeuser Subsidiaries in connection with the Refund.

(d) Except as provided in Section 2.01(e), if, with respect to any Weyerhaeuser Group Tax, the RMT Group (or any member thereof) receives (or realizes) a Refund, Parent shall remit, or cause to be remitted, to WNR, within 30 days, the amount of such Refund net of any Taxes incurred by the RMT Group (or any member thereof) in connection with the Refund.

(e) Parent shall cause the WRECO Group, except to the extent not permitted by Law, to elect to forego carrybacks of any net operating losses, capital losses, credits or other Tax benefits of the WRECO Group to the extent such carryback would result in an adjustment to a Joint Return. If Weyerhaeuser or any Weyerhaeuser Subsidiary receives (or realizes) a Refund as a result of any carryback permitted by the previous sentence, Weyerhaeuser shall remit, or cause to be remitted, to WRECO, within 30 days, the amount of such Refund net of any Taxes incurred by Weyerhaeuser and the Weyerhaeuser Subsidiaries in connection with the Refund; provided, however, that, if a Taxing Authority subsequently reduces or disallows such Refund, Parent shall cause WRECO, within five days of the reduction or disallowance, to return to the relevant payor the amount previously remitted to WRECO, plus interest at the rate determined under applicable Tax Law.

(f) In any case in which a Tax is assessed with respect to a Straddle Period, the Taxes, if any, attributable to a Straddle Period shall be allocated (i) to the period up to and including the date of the Transaction Agreement, on the one hand, and (ii) to the period subsequent to the date of the Transaction Agreement, on the other hand, in proportion to the number of days in each such period.

**SECTION 2.02. Transaction Taxes.** (a) Subject to Section 2.02(c), Parent shall indemnify, defend and hold harmless Weyerhaeuser and each Weyerhaeuser Subsidiary from and against any Transaction Taxes attributable to:

(i) any inaccurate representation of fact, plan or intent made by Parent in Section 4.01(b) of this Agreement or in the Parent Representation Letter;

(ii) any action or omission by an RMT Group member in the Post-Distribution Period that is inconsistent with any covenant made by WRECO or Parent in this Agreement, including Section 4.02, other than any action or omission that was taken or omitted in reliance upon any representation, warranty or covenant made by Weyerhaeuser in this Agreement or the Weyerhaeuser Representation Letter to the extent such representation or warranty is incorrect or such covenant was breached, in whole or in relevant part; or

(iii) any other action or omission by an RMT Group member in the Post-Distribution Period, other than any action or omission (x) contemplated under any Transaction Document or (y) that was taken or omitted in reliance upon any representation, warranty or covenant made by Weyerhaeuser in this Agreement or the Weyerhaeuser Representation Letter to the extent such representation or warranty is incorrect or such covenant was breached, in whole or in relevant part.

(b) Subject to Section 2.02(c), Weyerhaeuser shall indemnify, defend and hold harmless each RMT Group member from and against any Transaction Taxes attributable to:

(i) any inaccurate representation of fact, plan or intent made by Weyerhaeuser in Section 4.01(a) of this Agreement or in the Weyerhaeuser Representation Letter;

(ii) any action or omission by Weyerhaeuser or a Weyerhaeuser Subsidiary that is inconsistent with any covenant made by Weyerhaeuser in this Agreement, including Section 4.02, other than any action or omission that was taken or omitted in reliance upon any representation, warranty or covenant made by Parent in this Agreement or the Parent Representation Letter to the extent such representation or warranty is incorrect or such covenant was breached, in whole or in relevant part; or

(iii) any other action or omission by Weyerhaeuser or a Weyerhaeuser Subsidiary, other than any action or omission (x) contemplated under any Transaction Document or (y) that was taken or omitted in reliance upon any representation, warranty or covenant made by Parent in this Agreement or the Parent Representation Letter to the extent such representation or warranty is incorrect or such covenant was breached, in whole or in relevant part.

(c) Parent shall not be liable for any Transaction Taxes under Section 2.02(a) if such Transaction Taxes would, in any event, have been imposed or incurred without regard to any action or omission by any member of the RMT Group described in Section 2.02(a) and Section 4.02 and as determined at such time; provided, however, notwithstanding anything to the contrary contained in this Agreement, Parent shall indemnify, defend and hold harmless Weyerhaeuser and each Weyerhaeuser Subsidiary from and against any Transaction Taxes resulting from or arising out of a Parent Section 355(e) Event, except for any such event that would not have been so taxable but for Weyerhaeuser's breach of Section 4.01(a).

(d) Weyerhaeuser shall indemnify, defend and hold harmless each RMT Group member from and against any Transaction Taxes with respect to which neither party is liable under Section 2.02(a) or 2.02(b) above.

(e) The party liable for any Transaction Taxes shall be entitled to any Refund of such Transaction Taxes, and, if another party or any of its Subsidiaries receives (or realizes) any such Refund, it shall remit, or cause to be remitted, the amount of such Refund net of any Taxes incurred by such party or any of its Subsidiaries in connection with the Refund, within 30 days, to the party entitled to it under this Agreement.

(f) Notwithstanding anything to the contrary contained in this Agreement, Weyerhaeuser shall be solely responsible for, and shall indemnify, defend and hold harmless Parent and the WRECO Group from and against, any Taxes arising as a result of the Transactions from (i) gain recognized under Treasury Regulation Section 1.1502-19(b) in connection with an excess loss account with respect to the WRECO Capital Stock or the capital stock of any Subsidiary of WRECO, in each case at the time of the WRECO Spin, (ii) net deferred gains taken into account under Treasury Regulation Section 1.1502-13(d) associated with deferred intercompany transactions between a WRECO Group member and a Weyerhaeuser Group member, (iii) any gain recognized under Section 361(b) of the Code as a result of a distribution from WRECO to WNR prior to the WRECO Spin, and (iv) any gains described in clauses (i) through (iii) that are imposed under similar state and local Tax Law.

SECTION 2.03. Transfer Taxes. Transfer Taxes are considered WRECO Group Taxes and the RMT Group shall be liable for any such Taxes. The parties shall cooperate in

good faith to minimize the amount of any Transfer Taxes and obtain any Refunds therefor. If Weyerhaeuser or any Weyerhaeuser Subsidiary receives a Refund of any Transfer Taxes, Weyerhaeuser shall remit, or cause to be remitted, within 30 days, the Refund to the RMT Group net of Taxes incurred by Weyerhaeuser and the Weyerhaeuser Subsidiaries in connection with the Refund.

SECTION 2.04. Entitlement to Tax Attributes. (a) Notwithstanding anything to the contrary in this Agreement or in the Tax Allocation Agreement between WNR and WRECO, Weyerhaeuser and the Weyerhaeuser Subsidiaries shall be entitled to any Tax deduction or credit, as the case may be, of the WRECO Group (or any member thereof) relating to (i) the exercise of compensatory stock options issued (in amounts consistent with past custom and practice) on or prior to December 31, 2013, with respect to Weyerhaeuser Common Shares and (ii) any Weyerhaeuser Tax Attributes (the items described in clauses (i) and (ii), collectively, the “Weyerhaeuser Tax Assets”). Weyerhaeuser shall, and shall cause each Weyerhaeuser Subsidiary to, to the extent permitted by Law, claim any Tax deduction or credit described in this Section 2.04(a) on a Tax Return that includes as Weyerhaeuser Group member. In connection therewith, in the event that the RMT Group (or any member thereof) actually utilizes any Weyerhaeuser Tax Asset to reduce its Tax liability (determined by treating any Weyerhaeuser Tax Asset that is a deduction as the last item of deduction claimed on a Tax Return of the RMT Group), Parent shall make a payment to WNR in an amount equal to the overall net reduction in Tax liability realized as a result of utilizing the relevant Weyerhaeuser Tax Asset, taking into account the net effect of all federal, state and local Taxes. Any such payment shall be made within 30 days after the RMT Group (or any member thereof), as the case may be, realizes such reduction in Tax liability by way of a Refund or otherwise. To the extent any Weyerhaeuser Tax Assets are subsequently increased for any reason, Parent shall pay WNR for the benefit of any such increase in a manner consistent with this provision. To the extent that, following a Final Determination, the RMT Group (or any member thereof) is unable to utilize a Weyerhaeuser Tax Asset (or portion thereof) to reduce its Tax liability, then Weyerhaeuser shall cause WNR to repay to Parent any amount previously paid to WNR with respect to such Weyerhaeuser Tax Asset (or portion thereof), plus interest (at the rate determined under applicable Tax Law) from the date of payment to WNR through the date of WNR’s repayment.

(b) Weyerhaeuser and WNR shall in good faith allocate tax attributes arising in the Pre-Distribution Period between the Weyerhaeuser Group and the RMT Group in accordance with the Code and Treasury Regulations, including Treasury Regulation Section 1.1502-21, 1.1502-21T, 1.1502-22, 1.1502-79, 1.1502-95(c), and Proposed Regulations Section 1.1502-55(h) (and any applicable state, local and foreign Laws); provided, that earnings and profits shall be allocated, pursuant to Treasury Regulation Section 1.1502-33(e)(3), in accordance with Section 312(h) of the Code and Treasury Regulation Section 1.312-10(a).

SECTION 2.05. Transfer of WRI and the Coyote Springs Excluded Assets. To the extent losses associated with WRI and the Coyote Springs Excluded Assets are allowed as a result of the Distribution, the parties agree that any Weyerhaeuser Tax Attributes arising from such losses will be properly recognized while WRECO is a member of the WNR consolidated group under Treasury Regulation Section 1.1502-76(b)(1)(ii), and shall report the losses consistent herewith. Notwithstanding anything to the contrary in this Agreement, Weyerhaeuser shall be responsible for any Transfer Taxes attributable to the transfer of WRI and the Coyote Springs Excluded Assets.

SECTION 2.06. Additional Costs. Each party shall be entitled to indemnification for Additional Costs related to any indemnity payment under this Agreement.

### ARTICLE III

#### Tax Return Filing and Payment Obligations

SECTION 3.01. Tax Return Preparation and Filing. (a) From and after the Closing Date, Weyerhaeuser shall (i) prepare and file, or cause to be prepared and filed, all Joint Returns, (ii) subject to Section 3.01(d), prepare and file all WRECO Separate Returns and any related documents or statements required (or permitted) to be filed by any WRECO Group member for any taxable period ending on or prior to the date of the Transaction Agreement and (iii) pay, or cause to be paid, all Taxes shown to be due and payable on such Tax Returns. Parent shall pay Weyerhaeuser for any Taxes shown as due on any Tax Return filed under this Section 3.01(a) for which it has an indemnity obligation under Section 2.01(b) at least two days prior to the filing deadline for Tax Return (including any applicable extensions).

(b) From and after the Closing Date, Parent shall (i) subject to Section 3.01(d), prepare and file, or cause to be prepared and filed, all WRECO Separate Returns for any Straddle Period, (ii) prepare and file, or cause to be prepared and filed, all WRECO Separate Returns and any related documents or statements required (or permitted) to be filed by any WRECO Group member for any Post-Distribution Period, (iii) prepare and file, or cause to be prepared and filed, all Transfer Tax Returns and (iv) pay, or cause to be paid, all Taxes shown to be due and payable on the Tax Returns described in clauses (i), (ii) and (iii). Weyerhaeuser shall pay Parent for any Taxes shown as due on any Tax Return filed under this Section 3.01(b) for which it has an indemnity obligation under Section 2.01(a) at least two days prior to the filing deadline for Tax Return (including any applicable extensions).

(c) Except as provided in Section 3.02 and with respect to Tax Returns subject to Section 3.01(d), the party required to prepare a return pursuant to Section 3.01(a) or Section 3.01(b) shall determine, with respect to such return: (i) the manner in which such Tax Return shall be prepared and filed, including the manner in which any item of income, gain, loss, deduction or credit shall be reported thereon and the allocation of items, (ii) whether any extensions of time to file any such Tax Return will be requested or any amended Tax Return will be filed and (iii) the elections that will be made on any such Tax Return. In the absence of a change in Law or circumstances requiring the contrary, any Joint Return relating to a member of the WRECO Group and any WRECO Separate Return for a period ending on or before the Distribution Date shall be prepared, where applicable, on a basis consistent with the WRECO Group's elections, accounting methods, conventions and principles of taxation used for the most recent Tax periods for which Tax Returns of the WRECO Group involving similar matters have been filed.

(d) The party that is required to prepare a WRECO Separate Return pursuant to Section 3.01(a)(ii) or Section 3.01(b)(i) shall submit to the other party a draft of any such

WRECO Separate Return required to be filed after the Closing Date at least, in the case of income Tax Returns, 30 days prior to the due date (taking into account any applicable extensions) for filing such Tax Return. The non-preparing party shall be deemed to have agreed to the applicable income Tax Return, as prepared by the preparing party, unless the non-preparing party delivers a Penalty Objection to the preparing party within 10 days of delivery of such income Tax Return. If the non-preparing party delivers to the preparing party a timely Penalty Objection with respect to income Tax Returns, the parties shall negotiate in good faith to resolve all disputed issues. If the parties are unable to resolve all disputed issues within the following 10-day period, they shall submit the remaining disputed issues to the Tax Advisor for resolution at least five days prior to the due date for filing the applicable income Tax Return (including extensions). The preparing party's return positions with respect to the disputed issues shall be upheld except for any such positions that the Tax Advisor concludes do not satisfy the Applicable Penalty Standard. The non-preparing party shall be liable for all fees and expenses of the Tax Advisor incurred under this Section 3.01(d); provided, however, that the preparing party shall be liable for all such fees and expenses incurred with respect to any Tax Return for which the Tax Advisor concludes a preparing party return position did not satisfy the Applicable Penalty Standard. In the case of Tax Returns that are not Income Tax Returns (including Business and Occupations Tax Returns for the State of Washington) ("Non-Income Tax Returns") the preparing party will deliver drafts of such Non-Income Tax Returns at least two days prior to the date on which such Non-Income Tax Returns are required to be filed.

(e) Parent shall not cause or permit any WRECO Group member to file any amended Tax Return with respect to a Joint Return or a WRECO Separate Return for any Pre-Transaction Agreement Period.

(f) Except as required by any Transaction Document, Parent shall not cause or permit any WRECO Group member to take any action on the Closing Date other than in the ordinary course of business, including the sale of any assets, distribution of any dividend or making of any Tax election.

SECTION 3.02. Treatment of Transactions. The parties shall report the Transactions for all Tax purposes in a manner consistent with the Tax Opinion, unless, and then only to the extent, an alternative position is required pursuant to a Final Determination. Except in the case of a WRECO Separate Return, a Transfer Tax Return and a Tax Return of the RMT Group, Weyerhaeuser shall determine the Tax reporting of any issue relating to the Transactions that is not covered by the Tax Opinion.

## ARTICLE IV

### Tax-Free Treatment of Distribution and Related Transaction

SECTION 4.01. Representations. (a) Weyerhaeuser represents and warrants to Parent that, as of the Closing Date, (i) Weyerhaeuser knows of no facts that could cause any Transaction to fail to qualify for Intended Tax Treatment, (ii) Weyerhaeuser has no plan or intention to take any action inconsistent with the Weyerhaeuser Representation Letter or any covenant of Weyerhaeuser set forth this Agreement and (iii) no pre-Distribution acquisition or

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sale of Weyerhaeuser Common Shares by Weyerhaeuser or any Weyerhaeuser Subsidiary will be part of a plan (or series of related transactions), within the meaning of Section 355(e)(2)(A)(ii) of the Code and Treasury Regulation Section 1.355-7(b), that includes the Distribution.

(b) Parent represents and warrants to Weyerhaeuser that, as of the Closing Date, (i) Parent knows of no facts that could cause any Transaction to fail to qualify for Intended Tax Treatment and (ii) Parent has no plan or intention to take any action inconsistent with the Parent Representation Letter or any covenant of the RMT Group member set forth in this Agreement. Parent further represents and warrants that, immediately before the Effective Time, the amount of shares of Parent Capital Stock treated as outstanding for purposes of Section 355(e) of the Code will not exceed 33,000,000 shares. Any equity-based compensation awards in respect of Parent Capital Stock outstanding immediately before the Effective Time shall be treated as vested or exercised, as the case may be, and the resulting Parent Capital Stock shall be treated as outstanding stock for purposes of the calculation in the immediately preceding sentence.

SECTION 4.02. Covenants. (a) During the Restricted Period, (i) Weyerhaeuser shall not, and shall not permit any Weyerhaeuser Subsidiary (or any officers or directors acting on behalf of Weyerhaeuser or any Weyerhaeuser Subsidiary, or any Person acting with the implicit or explicit permission of any such officers or directors) to, take or fail to take any action if such action (or the failure to take such action) would (A) be inconsistent with any covenant, representation or statement made by Weyerhaeuser in the Weyerhaeuser Representation Letter or in this Agreement or (B) prevent, or be reasonably likely to prevent, any Transaction from qualifying for Intended Tax Treatment, and (ii) Parent shall not, and shall not permit any RMT Group member (or any officers or directors acting on behalf of any RMT Group member, or any Person acting with the implicit or explicit permission of any such officers or directors) to, take or fail to take any action if such action (or the failure to take such action) would (A) be inconsistent with any covenant, representation or statement made by Parent in the Parent Representation Letter or in this Agreement or (B) prevent, or be reasonably likely to prevent, any Transaction from qualifying for Intended Tax Treatment.

(b) Without limiting the generality of Section 4.02(a), during the Restricted Period, subject to Section 4.02(d), Parent shall not, and shall not permit any RMT Group member (or any officers or directors acting on behalf of any RMT Group member, or any Person acting with the implicit or explicit permission of any such officers or directors) to:

(i) enter into any agreement, understanding, arrangement or substantial negotiations, as defined in Treasury Regulation Section 1.355-7(h), pursuant to which any Person would (directly or indirectly) acquire, or have the right to acquire Parent Capital Stock or WRECO Capital Stock. For these purposes, an acquisition of Parent Capital Stock or WRECO Capital Stock, as applicable, shall include, without limitation, any recapitalization, repurchase or redemption of Parent Capital Stock or WRECO Capital Stock, any issuance of Parent Capital Stock or WRECO Capital Stock (including any nonvoting stock) or an instrument exchangeable or convertible into Parent Capital Stock or WRECO Capital Stock (whether pursuant to an exercise of stock options, as a result of a capital contribution to Parent or WRECO, as applicable, or otherwise), any option grant, any amendment to the certificate or articles of incorporation (or other

organizational document) of Parent or WRECO, as applicable, or any other action (whether effected through a shareholder vote or otherwise) affecting the voting rights of Parent Capital Stock or WRECO Capital Stock (including through the conversion of any Parent Capital Stock or WRECO Capital Stock into another class of capital stock); provided, however, that (A) WRECO shall be permitted to issue WRECO Capital Stock to Parent; (B) Parent shall be permitted to issue options, restricted stock, and deferred stock units in respect of a number of shares of Parent Capital Stock and that does not exceed the Option Amount pursuant to an employee stock purchase agreement, equity compensation agreement, retirement plan or other compensation arrangement; (C) vesting of any restricted stock or deferred stock units that a Safe Harbor VIII Person is entitled to receive (or would be entitled to receive upon achieving the relevant hurdles in existence) as of the Effective Time shall not be treated as an acquisition of Parent Capital Stock for purposes of this Section 4.02(b)(i); (D) Parent shall be permitted to issue Parent Capital Stock to a Safe Harbor VIII Person pursuant to the exercise of an option to acquire Parent Capital Stock that was granted at or prior to the Effective Time; (E) with respect to any issuances of options, restricted stock or deferred stock units in respect of shares of Parent Capital Stock in excess of the Option Amount, after Weyerhaeuser's receipt and acceptance of, and solely to the extent consistent with, an Equity Compensation Opinion delivered to Weyerhaeuser by Parent, until the earlier of (1) any amendment of the Covered Compensation Arrangement and (2) a change in applicable Tax Law, Parent or WRECO, as applicable, may issue options, restricted stock and deferred stock units in respect of Parent Capital Stock and WRECO Common Stock pursuant to an employee stock purchase agreement, equity compensation agreement, retirement plan or other compensation arrangement that is described in the Equity Compensation Opinion (such arrangement, the "Covered Compensation Arrangement"), and Parent or WRECO, as applicable, may issue the shares of Parent Capital Stock or WRECO Capital Stock underlying such options, restricted stock and/or deferred stock units upon the exercise or vesting thereof, and any such shares shall not be treated as an acquisition of Parent Capital Stock or WRECO Capital Stock, as applicable; (F) subject to compliance with Section 4.02(d), Parent may redeem, retire, repurchase or otherwise acquire Parent Capital Stock in a manner that complies with the requirements of Revenue Procedure 96-30 (as in effect prior to the release of Revenue Procedure 2003-48); and (G) Parent may adopt a shareholder rights plan (and issue Parent Capital Stock in accordance therewith) that is described in or is similar to the shareholder rights plan described in IRS Revenue Ruling 90-11 (for this purpose a shareholder rights plan will be considered similar to the plan described in IRS Revenue Ruling 90-11 only if the principal purpose for the adoption of the plan providing for such rights is to establish a mechanism by which a publicly held corporation can, in the future, provide shareholders with rights to purchase stock at substantially less than fair market value as a means of responding to unsolicited offers to acquire the corporation);

- (ii) merge or consolidate Parent or WRECO with any other Person, or liquidate or partially liquidate Parent or WRECO;
- (iii) cause or permit Parent or WRECO to be treated as other than a corporation for U.S. federal income Tax purposes; or

(iv) cause or permit WRECO to cease to engage in the Active Trade or Business, or engage in any transaction that could result in WRECO ceasing to be a company whose separate affiliated group, as defined in Section 355(b)(3)(B) of the Code, is so engaged; provided, however, that, after the Merger, the WRECO Group shall, with respect to transactions not in the ordinary course of business, be permitted to sell, transfer or otherwise dispose of assets with an aggregate value up to 33 <sup>1/3</sup> % of its assets (determined based on the gross fair market value of the WRECO Group's assets immediately before the Closing Date) in the aggregate; provided, however, that nothing herein shall prevent the WRECO Group from selling or disposing of assets in the ordinary course of business and any such sales shall be disregarded for purpose of applying the limitation set forth in this Section 4.02(b)(iv).

(c) To the extent that as a result of a subsequent amendment to the Code or the Treasury Regulations, any action or a failure to take any action by Weyerhaeuser and the Weyerhaeuser Subsidiaries or an RMT Group member could affect any Transaction's qualification for the Intended Tax Treatment, then the covenants contained in Section 4.02(a)(i)(B) and in Section 4.02(a)(ii)(B) shall automatically be deemed to incorporate by reference such actions and the failure to take such actions, and the RMT Group shall comply with the requirements of the relevant amendment through the end of the Restricted Period; provided, however, that no such action or failure to take any such action before the date the relevant amendment is enacted shall constitute a breach of such Sections to the extent such actions or failure to take such actions would not have otherwise constituted a breach of such Sections before such date.

(d) Parent shall not, and shall not permit any RMT Group member to, take any action prohibited by Sections 4.02(b) and (c), unless (i) Weyerhaeuser receives prior written notice describing the proposed action in reasonable detail and (ii) Parent delivers to Weyerhaeuser (A) an Unqualified Opinion and Weyerhaeuser, in its reasonable discretion, which discretion shall be exercised in good faith solely to preserve the Intended Tax Treatment, provides its written consent permitting the proposed action, or (B) a Ruling. Weyerhaeuser's obligation to cooperate in connection with Parent's delivery of an Unqualified Opinion or Ruling is as expressly set forth in Section 5.05(b) below. The right of Weyerhaeuser and the Weyerhaeuser Subsidiaries to indemnification for Transaction Taxes shall be determined without regard to whether the RMT Group satisfies any or all of the requirements of this Section 4.02(d).

## ARTICLE V

### Tax Contests; Indemnification; Cooperation

SECTION 5.01. Notice of Tax Contests. If any party (the "Indemnitee") receives written notice of the commencement of any Tax Contest for which indemnity may be sought under this Agreement, and such Indemnitee intends to seek indemnity pursuant to this Agreement, the Indemnitee shall promptly provide the other party (the "Indemnifying Party") with written notice of such Tax Contest, and thereafter shall promptly forward or make available to the Indemnifying Parties copies of all notices and communications with a Taxing Authority solely to the extent relating to such Tax Contest. Failure of the Indemnitee to give such notice will not relieve the Indemnifying Parties from liability on account of this indemnification, except if and to the extent that the Indemnifying Party is materially prejudiced thereby.

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SECTION 5.02. Control of Tax Contests. (a) Except as provided in Section 5.02(b), Weyerhaeuser shall have the right to (i) contest, compromise or settle any adjustment or deficiency proposed or asserted with respect to any Tax liability of a Weyerhaeuser Group member, any Tax liability reflected on a Joint Return, or any tax liability reflected on a WRECO Separate Return for a Pre-Transaction Agreement Period, and (ii) file, prosecute, compromise or settle any Adjustment Request (and determine the manner in which any Refund shall be received) with respect to any such Taxes for any such period. If any Tax Contest described in the preceding sentence relates to WRECO Group Taxes or Transaction Taxes with respect to which Parent could be liable under Section 2.02(a) (either an “RMT Issue”), (A) Weyerhaeuser shall (1) keep Parent fully informed, in all material respects, regarding the progress of the prosecution or defense of such Tax Contest, (2) promptly provide Parent with copies of any correspondence relating to Taxes received from any Taxing Authority in connection with such Tax Contest and (3) provide Parent with drafts of any correspondence relating to Taxes from Weyerhaeuser to any Taxing Authority in connection with such Tax Contest and provide Parent with a reasonable opportunity to comment on such correspondence and (B) if Parent acknowledges its liability in writing for all the Taxes that would be owed to a Taxing Authority in the event of an adverse determination with respect to the RMT Issue, Weyerhaeuser shall not settle or compromise such RMT Issue without Parent’s written consent, which consent may not be unreasonably withheld, delayed or conditioned. If Parent withholds its consent to a settlement or compromise described in clause (B) above, Parent shall be liable for any Taxes resulting from a Final Determination to the extent the basis for the Final Determination is such that the RMT Group would have liability for the applicable Taxes under this Agreement or if the Final Determination fails to clearly articulate the basis for liability such that it is not reasonably ascertainable which party would be liable for the Taxes under this Agreement. Weyerhaeuser and Parent shall use their reasonable best efforts to ensure that the Final Determination clearly provides the basis for such determination.

(b) Parent shall have the right to (i) contest, compromise or settle any adjustment or deficiency proposed or asserted with respect to any Tax liability reflected on any WRECO Separate Return for a period ending after the date of the Transaction Agreement (including any Straddle Period) and any Tax liability reflected on a Transfer Tax Return, and (ii) file, prosecute, compromise or settle any Adjustment Request (and determine the manner in which any Refund shall be received) with respect to any Tax reflected on such Tax Returns for such period. If any Tax Contest described in the preceding sentence relates to Weyerhaeuser Group Taxes or Transaction Taxes with respect to which Weyerhaeuser could be liable under Section 2.02(b) (either, a “Weyerhaeuser Issue”), (A) Parent shall (1) keep Weyerhaeuser fully informed, in all material respects, regarding the progress of the prosecution or defense of such Tax Contest, (2) promptly provide Weyerhaeuser with copies of any correspondence relating to Taxes received from any Taxing Authority in connection with such Tax Contest and (3) provide Weyerhaeuser with drafts of any correspondence relating to Taxes from Parent to any Taxing Authority in connection with such Tax Contest and provide Weyerhaeuser with a reasonable opportunity to comment on such correspondence and (B) if Weyerhaeuser acknowledges its liability in writing for all the Taxes that would be owed to a Taxing Authority in the event of an

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adverse determination with respect to the Weyerhaeuser Issue, Parent shall not settle or compromise such Weyerhaeuser Issue without Weyerhaeuser's written consent, which consent may not be unreasonably withheld, delayed or conditioned. If Weyerhaeuser withholds its consent to a settlement or compromise described in clause (B) above, Weyerhaeuser shall be liable for any Taxes resulting from a Final Determination to the extent the basis for the Final Determination is such that the Weyerhaeuser Group would have liability for the applicable Taxes under this Agreement or if the Final Determination fails to clearly articulate the basis for liability such that it is not reasonably ascertainable which party would be liable for the Taxes under this Agreement. Weyerhaeuser and Parent shall use reasonable best efforts to ensure that the Final Determination clearly provides the basis for such determination.

SECTION 5.03. Indemnification Payments. (a) The Indemnitee shall notify the Indemnifying Party promptly in writing of its discovery of any matter that does not involve a Tax Contest giving rise to the claim of indemnity pursuant to this Agreement. The failure to so notify the Indemnifying Party shall not relieve the Indemnifying Party from liability on account of this indemnification, except if and to the extent that the Indemnifying Party is materially prejudiced thereby. The Indemnifying Party shall have 10 days from receipt of any such notice to give notice of a dispute of the claim to the Indemnitee. The Indemnitee shall reasonably cooperate and assist the Indemnifying Party in determining the validity of any claim for indemnity by the Indemnified Party and in otherwise resolving such matters. Unless the Indemnifying Party gives notice of a dispute of the claim within such 10-day period, the Indemnifying Party shall make the claimed payment to the Indemnitee within 10 days after receiving notice of (i) the Indemnitee's payment of a Tax for which the Indemnifying Party is liable under this Agreement or (ii) a Final Determination which results in the Indemnifying Party becoming obligated to make a payment to the Indemnitee under this Agreement.

(b) Parent shall not be required to make any payments under this Agreement to Weyerhaeuser or any Weyerhaeuser Subsidiary until the aggregate amount of such payments due (but for this Section 5.03(b)) exceeds the net amount paid by WRECO to WNR after the date of the Transaction Agreement in respect of (without duplication), (i) WRECO Group Taxes or (ii) payables that arise after the date of the Transaction Agreement pursuant to the Tax Allocation Agreement, dated January 1, 2010, between WNR and WRECO, and thereafter Parent shall only be required to make payments to the extent of such excess. Weyerhaeuser will provide Parent with evidence of the amounts described in clauses (i) and (ii) above, in a form mutually agreed upon by the parties. For purposes of calculating the net amount paid by WRECO to WNR in the previous sentence, any increase after the date of the Transaction Agreement in the amount of Intercompany Debt in respect of Taxes or payables described in clause (i) or (ii) above shall be taken into account as a payment from WRECO to WNR.

SECTION 5.04. Treatment of Indemnity Payments. In the absence of a Final Determination to the contrary, any amount payable with respect to any Tax under this Agreement shall be treated as occurring immediately prior to the WRECO Spin, as an intercompany distribution or a contribution to capital, as the case may be.

SECTION 5.05. Cooperation. (a) Each of Weyerhaeuser and Parent shall, and shall cause its Subsidiaries to, subject to Section 5.05 (b) below, cooperate fully with all

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reasonable requests from the other parties in connection with the preparation and filing of Tax Returns and Adjustment Requests, the resolution of Tax Contests and any other matters covered herein. If any parties fail to comply with any of their obligations set forth in this Section 5.06(a), and such failure results in the imposition of additional Taxes, the nonperforming parties shall be liable for such additional Taxes.

(b) In connection with the foregoing, Weyerhaeuser shall, at Parent's sole expense, reasonably cooperate with Parent, upon its written request, in connection with obtaining (i) a Ruling or (ii) an Unqualified Opinion. Such cooperation shall include Weyerhaeuser providing any information, submissions, representations and covenants reasonably requested by a recipient that has previously executed with Weyerhaeuser an appropriate confidentiality agreement, in form and substance satisfactory to Weyerhaeuser and that permits reliance by Weyerhaeuser. This Section 5.05 shall not require Weyerhaeuser to take any action (including the provision of information, submissions, representations or covenants) that could reasonably be expected to affect Weyerhaeuser's indemnity obligation for Taxes under this Agreement, decrease in any respect Parent's indemnity obligation for Taxes under this Agreement, or cause Weyerhaeuser or any Weyerhaeuser Subsidiary to have any liability to any third party, including any liability for increased Taxes. Parent acknowledges and agrees that, in the case of a Ruling, Parent shall immediately notify Weyerhaeuser if the IRS seeks any non-publicly available information regarding Weyerhaeuser or any of its Affiliates, and Parent shall not provide any such information to the IRS without Weyerhaeuser's written consent, which consent can be withheld or provided in Weyerhaeuser's sole and absolute discretion. Parent shall promptly withdraw any such Ruling request (and immediately notify Weyerhaeuser in writing of such withdrawal) if Weyerhaeuser does not affirmatively consent to provide the requested information within 48 hours of Parent's notification to Weyerhaeuser regarding the request therefor. Parent shall provide to Weyerhaeuser, for its review and approval prior to filing, a copy of any Ruling request and any other submissions made to the IRS in connection therewith, and Parent shall provide to Weyerhaeuser a copy of any Ruling obtained in connection with such request.

SECTION 5.06. Tax Records. Each of Weyerhaeuser and Parent shall, and shall cause its Subsidiaries to, retain all Tax Records in its possession relating to or relevant to any Tax matter for which any party may have an indemnity obligation hereunder until expiration of the statute of limitations of the Tax periods to which such Tax Records relate (giving effect to any valid extensions made known to the Purchaser) plus six months.

SECTION 5.07. Confidentiality. Any information or documents provided under this Agreement shall be kept confidential by the recipient parties, except as may otherwise be necessary in connection with the filing of any Tax Return or the resolution of any Tax Contest. In addition, if Weyerhaeuser, WRECO or Parent determines that providing such information could be commercially detrimental, violate any Law or agreement or waive any privilege, the parties shall use their reasonable best efforts to permit compliance with the obligations under this Agreement in a manner that avoids any such harm or consequence.

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## ARTICLE VI

### Dispute Resolution

SECTION 6.01 Tax Disputes. The parties hereto shall negotiate in good faith to resolve any dispute arising in connection with this Agreement within 30 days of the date on which any such dispute arises. Upon written notice by a party after such 30-day period, the matter will be referred to a U.S. tax counsel or other tax advisor of recognized national standing (the "Tax Advisor"). Weyerhaeuser and Parent shall negotiate in good faith to jointly select a Tax Advisor within five days of such written notice. If Weyerhaeuser and Parent do not agree on the selection of the Tax Advisor within such five-day period, the Tax Advisor shall be selected by Weyerhaeuser's and Parent's respective U.S. tax counsel or other advisors of recognized national standing within the following 10-day period. The Tax Advisor may, in its discretion, obtain the services of any third party necessary to assist it in resolving the dispute. The Tax Advisor shall furnish written notice to the parties of its resolution of the dispute as soon as practicable, but in any event no later than 90 days after acceptance of the matter for resolution. Any such resolution by the Tax Advisor shall be binding on the parties, and the parties shall take, or cause to be taken, any action necessary to implement such resolution. All fees and expenses of the Tax Advisor shall be shared equally by Weyerhaeuser and Parent. If any dispute regarding the preparation of a Tax Return is not resolved before the due date for filing such return, the return shall be filed in the manner deemed correct by the party responsible for filing the return without prejudice to the rights and obligations of the parties hereunder, provided that the preparing party shall file an amended Tax Return, within 10 days after the completion of the process set forth in this Section 6.01, reflecting any changes made in connection with such process.

## ARTICLE VII

### General Provisions

SECTION 7.01. Notices. All notices, requests, claims, demands, waivers and other communications under this Agreement shall be in writing and shall be addressed to a party at the following address for such party:

(i) if to Weyerhaeuser, to:

Weyerhaeuser Company  
33663 Weyerhaeuser Way South  
Federal Way, WA 98003  
Attention: Sandy McDade  
Facsimile: (253) 928-2185  
Email: sandy.mcdade@weyerhaeuser.com

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with a copy to:

Cravath, Swaine & Moore LLP  
Worldwide Plaza  
825 Eighth Avenue  
New York, NY 10019  
Attention: Richard Hall and Erik Tavzel  
Facsimile: (212) 474-3700  
Email: rhall@cravath.com and etavzel@cravath.com

(ii) if to Parent or WRECO, to:

TRI Pointe Homes, Inc.  
19520 Jamboree Road, Suite 200  
Irvine, CA 92612  
Attention: Doug Bauer  
Facsimile: (949) 478-8601  
Email: Doug.Bauer@TriPointeHomes.com

with a copy to:

Gibson, Dunn & Crutcher LLP  
3161 Michelson Drive  
Irvine, CA 92612  
Attention: Michael Flynn  
Facsimile: (949) 475-4774  
Email: mflynn@gibsondunn.com

or to such other address(es) as shall be furnished in writing by any such party to the other parties hereto in accordance with the provisions of this Section 7.01.

SECTION 7.02. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule or Law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible to the end that the transactions contemplated hereby are fulfilled to the extent possible.

SECTION 7.03. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the parties hereto and delivered to the other parties.

SECTION 7.04. Entire Agreement; No Third Party Beneficiaries. This Agreement, together with the other Transaction Documents, constitutes the entire agreement, and

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supersedes all prior agreements and understandings, both written and oral, among the parties hereto with respect to the subject matter hereof and is not intended to confer upon any Person other than the parties hereto any rights or remedies.

SECTION 7.05. Governing Law. This Agreement shall be governed by, and construed in accordance with, the Laws of the State of Delaware, regardless of the Laws that might otherwise govern under applicable principles of conflicts of laws thereof.

SECTION 7.06. Assignment. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned, in whole or in part, by operation of Law or otherwise by any of the parties hereto without the prior written consent of the other parties. Any purported assignment without such consent shall be void. Subject to the preceding sentences, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the parties hereto and their respective successors and assigns.

SECTION 7.07. Amendment; Waiver. This Agreement may be amended by the parties hereto at any time. Any amendment to this Agreement shall be valid only if set forth in an instrument in writing signed on behalf of each of the parties hereto. The parties hereto may, to the extent permitted under applicable Law, waive compliance with any of the terms or conditions contained in this Agreement. Any agreement on the part of a party to any such waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights hereunder or otherwise shall not constitute a waiver of such rights.

SECTION 7.08. Termination. This Agreement shall automatically terminate, without further action by any party hereto, upon the termination of the Transaction Agreement pursuant to Section 11.01 thereof. In the event of any such termination of this Agreement, this Agreement shall forthwith become void and have no effect, without any liability or obligation on the part of Weyerhaeuser, WRECO and Parent and Merger Sub or any other Person, other than Section 5.07 and this Article VII, which provisions shall survive such termination.

SECTION 7.09. Survival. All Sections of this Agreement shall be unconditional and absolute and shall remain in effect without limitation as to time (except to the extent any Sections expressly provide for an earlier date, in which case, as of such date).

*[Signature Page Follows]*

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IN WITNESS WHEREOF, the parties have duly executed this Agreement, all as of the date first written above.

WEYERHAEUSER COMPANY,

By

/s/ Jeffrey W. Nitta

Name: Jeffrey W. Nitta

Title: Vice President and Treasurer

WEYERHAEUSER REAL ESTATE COMPANY,

By

/s/ Jeffrey W. Nitta

Name: Jeffrey W. Nitta

Title: Vice President and Treasurer

TRI POINTE HOMES, INC.,

By

/s/ Douglas F. Bauer

Name: Douglas F. Bauer

Title: Chief Executive Officer

[ *Signature Page to Tax Sharing Agreement* ]



## TRI POINTE HOMES CLOSES \$2.8 BILLION MERGER WITH WEYERHAEUSER REAL ESTATE COMPANY

*- Positions TRI Pointe as One of the Top 10 Largest Public Homebuilders in the United States with 31,000 Lots in Key Growth Markets -*

IRVINE, CA (July 07, 2014) – TRI Pointe Homes, Inc. (NYSE: TPH) (“TRI Pointe” or the “Company”) announced today that its Reverse Morris Trust transaction with Weyerhaeuser Company (NYSE: WY) (“Weyerhaeuser”) has closed. The transaction, one of the biggest in homebuilding industry history, has resulted in the merger of TRI Pointe with Weyerhaeuser’s homebuilding subsidiary, Weyerhaeuser Real Estate Company (“WRECO”). The transaction is valued at approximately \$2.8 billion and positions TRI Pointe as one of the top 10 largest public homebuilders in the United States by equity market capitalization based on the closing price of TRI Pointe common stock on July 3<sup>rd</sup>, 2014.

As a result of the merger with WRECO, TRI Pointe’s land inventory has increased to approximately 31,000 owned or controlled lots with more than 19,000 of those lots located in entitlement-constrained California, where TRI Pointe’s management team has substantial experience and an established history of success. The additional land holdings provide the necessary land supply and diversification for future land and lot sales as well as increased home deliveries.

The transaction enhances TRI Pointe’s geographic presence by adding WRECO’s established collection of quality homebuilding companies, which will continue to operate under their respective brand names:

- TRI Pointe Homes – Northern and Southern California and Colorado
- Pardee Homes – Southern California and Southern Nevada
- Quadrant Homes – Puget Sound region of Washington State
- Maracay Homes – Phoenix and Tucson, Arizona
- Trendmaker Homes – Houston, Texas
- Winchester Homes – Washington, DC metro area and Richmond, Virginia

These companies boast some of the most experienced leadership teams in the home building industry averaging over 20 years of experience. The combined company will continue to be governed by TRI Pointe’s seasoned and respected executive management team. Barry S. Sternlicht will remain as Chairman of the TRI Pointe Board of Directors, which has been expanded from seven to nine directors. Doug Bauer will continue to serve as Chief Executive Officer of TRI Pointe, Tom Mitchell as President and Chief Operating Officer, and Mike Grubbs as Chief Financial Officer.

“Doug, Tom and Mike are a best-in-class executive team with deep managerial talent and a proven track record running a large, geographically diverse, growth-oriented public homebuilding company,” said Mr. Sternlicht, who also serves as Chairman and Chief Executive Officer of Starwood Capital Group, which financed TRI Pointe in 2010. “I am confident that they will build upon their past success

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and lead TRI Pointe to greater achievements as we look to take advantage of the enormous growth opportunities in the marketplace.”

TRI Pointe’s leadership remains focused on executing a disciplined homebuilding strategy. The merger with WRECO is expected to provide TRI Pointe with significantly enhanced scale, with more than 3,400 new home deliveries and \$1.6 billion in revenue on a historical combined basis over the past twelve months ended March 31, 2014.

“With the success of this completed merger, TRI Pointe is well-positioned as a leading homebuilder focused on some of the nation’s most attractive housing markets,” stated Mr. Bauer. “As we have demonstrated since we went public only 18 months ago, we continue to successfully deliver and execute on the strategy of securing new opportunities for growth while executing our plan to deliver earnings over time. These factors, combined with enhanced liquidity, the right land supply and geographic diversification, should provide a runway for sustainable growth.”

### **About TRI Pointe**

Headquartered in Irvine, California, TRI Pointe Homes, Inc. (NYSE: TPH) is one of the top 10 largest public homebuilders by equity market capitalization in the United States. The company designs, constructs and sells innovative single-family homes and condominiums through its portfolio of six quality brands, which include Maracay Homes of Arizona; Pardee Homes of California and Nevada; Quadrant Homes of Washington; Trendmaker Homes of Texas; TRI Pointe Homes of California and Colorado; and Winchester Homes of Washington DC and Virginia. Additional information is available at [www.tripointehomes.com](http://www.tripointehomes.com).

### **Forward-Looking Statements**

Except for the historical information contained in this press release, the matters set forth in this press release, including statements regarding the Company’s plans with respect to building and selling homes, are forward-looking statements within the meaning of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially, including, but not limited to, the risks and uncertainties associated with TRI Pointe’s ability to integrate WRECO successfully and to achieve anticipated synergies; the risk that disruptions from the transaction will harm TRI Pointe’s businesses; the effect of general economic conditions, including employment rates, housing starts, interest rate levels, availability of financing for home mortgages, the strength of the U.S. dollar, adverse weather, regulatory approvals, labor shortages and other risks detailed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013 and other documents subsequently filed with or furnished to the Securities and Exchange Commission. However, it is not possible to predict or identify all such risks and uncertainties. Consequently, while the foregoing list is considered representative, no such list should be considered to be a complete statement of all potential risks and uncertainties. These forward-looking statements are based on current information that may change and you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this press release. All forward-looking statements are qualified in their entirety by this cautionary statement, and the Company undertakes no obligation to revise or update any forward-looking statement to reflect events or circumstances after the issuance of this press release.

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**INDEX TO FINANCIAL PAGES**  
*Financial Statements of Weyerhaeuser Real Estate Company*

|   |     |
|---|-----|
| Report of Independent Registered Public Accounting Firm | F-2 |
| Consolidated Statement of Operations                    | F-3 |
| Consolidated Balance Sheet                              | F-4 |
| Consolidated Statement of Cash Flows                    | F-5 |
| Consolidated Statement of Changes In Equity             | F-7 |
| Index for Notes to Consolidated Financial Statements    | F-8 |

***Report of Independent Registered Public Accounting Firm***

The Board of Directors and Shareholder  
Weyerhaeuser Real Estate Company:

We have audited the accompanying consolidated balance sheets of Weyerhaeuser Real Estate Company and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Weyerhaeuser Real Estate Company and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Seattle, WA  
February 18, 2014

## Table of Contents

### CONSOLIDATED STATEMENT OF OPERATIONS

DOLLAR AMOUNTS IN THOUSANDS, EXCEPT  
PER-SHARE  
FIGURES

|  | (UNAUDITED)        |                | YEAR ENDED          |                  |                  |
|--|--------------------|----------------|---------------------|------------------|------------------|
|  | THREE MONTHS ENDED |                | DECEMBER 31,        | DECEMBER 31,     | DECEMBER 31,     |
|  | MARCH 31,          | MARCH 31,      | 2013                | 2012             | 2011             |
|  | 2014               | 2013           |                     |                  |                  |
| <b>Revenues:</b>   |                    |                |                     |                  |                  |
| Single-family home sales   | \$ 241,902         | \$ 182,381     | \$ 1,218,430        | \$ 870,596       | \$ 768,071       |
| Land and lots  | 3,387              | 11,262         | 52,261              | 192,489          | 66,703           |
| Other operations   | 2,843              | 1,873          | 4,021               | 7,221            | 2,971            |
| <b>Total revenues</b>  | <b>248,132</b>     | <b>195,516</b> | <b>1,274,712</b>    | <b>1,070,306</b> | <b>837,745</b>   |
| <b>Costs and expenses:</b>   |                    |                |                     |                  |                  |
| Single-family homes  | 190,840            | 146,631        | 948,561             | 690,578          | 589,574          |
| Land and lots  | 3,138              | 11,769         | 38,052              | 116,143          | 36,542           |
| Impairments and related charges, homebuilding<br>(Note 19)                     | 468                | 493            | 345,448             | 3,591            | 11,019           |
| Other operations   | 1,617              | 1,167          | 2,854               | 5,214            | 2,682            |
| Sales and marketing  | 20,905             | 18,244         | 94,521              | 78,022           | 71,587           |
| General and administrative   | 18,005             | 18,414         | 74,244              | 75,583           | 71,348           |
| Restructuring  | 1,716              | 440            | 10,938              | 2,460            | 2,801            |
| <b>Total costs and expenses</b>  | <b>236,689</b>     | <b>197,158</b> | <b>1,514,618</b>    | <b>971,591</b>   | <b>785,553</b>   |
| <b>Operating income (loss)</b>   | <b>11,443</b>      | <b>(1,642)</b> | <b>(239,906)</b>    | <b>98,715</b>    | <b>52,192</b>    |
| <b>Other income (expense):</b>   |                    |                |                     |                  |                  |
| Equity in earnings (loss) of unconsolidated<br>entities (Note 7)               | (68)               | (103)          | 2                   | 2,490            | 1,584            |
| Other income (expense), net (Note 21)  | 735                | 951            | 2,450               | (1,576)          | 496              |
| <b>Total other income (expense)</b>  | <b>667</b>         | <b>848</b>     | <b>2,452</b>        | <b>914</b>       | <b>2,080</b>     |
| Earnings (loss) from continuing operations before<br>income taxes              | 12,110             | (794)          | (237,454)           | 99,629           | 54,272           |
| Income tax benefit (expense) (Note 22)   | (4,529)            | 739            | 86,161              | (38,910)         | (19,333)         |
| Earnings (loss) from continuing operations                                     | 7,581              | (55)           | (151,293)           | 60,719           | 34,939           |
| Discontinued operations, net of income taxes (Note<br>24)                      | —                  | 189            | 1,838               | 762              | 589              |
| <b>Net earnings (loss) attributable to common<br/>shareholder</b>              | <b>\$ 7,581</b>    | <b>\$ 134</b>  | <b>\$ (149,455)</b> | <b>\$ 61,481</b> | <b>\$ 35,528</b> |
| Basic earnings (loss) per share attributable to<br>common shareholder (Note 3) |                    |                |                     |                  |                  |
| Continuing operations  | \$ 0.08            | \$ (0.01)      | \$ (1.51)           | \$ 0.61          | \$ 0.35          |
| Discontinued operations  | —                  | 0.01           | 0.02                | 0.00             | 0.01             |
| <b>Net earnings per share</b>  | <b>\$ 0.08</b>     | <b>\$ —</b>    | <b>\$ (1.49)</b>    | <b>\$ 0.61</b>   | <b>\$ 0.36</b>   |
| Weighted average shares outstanding (in thousands)<br>(Note 3)                 | 100,000            | 100,000        | 100,000             | 100,000          | 100,000          |

See accompanying *Notes to Consolidated Financial Statements* .

## Table of Contents

### CONSOLIDATED BALANCE SHEET

DOLLAR AMOUNTS IN THOUSANDS

|  | (UNAUDITED)<br>MARCH 31,<br>2014 | DECEMBER 31,<br>2013       | DECEMBER 31,<br>2012       |
|--|----------------------------------|----------------------------|----------------------------|
| <b>Assets</b>  |                                  |                            |                            |
| Cash   | \$ 3,338                         | \$ 4,510                   | \$ 5,212                   |
| Receivables, net (Note 4)  | 35,425                           | 60,397                     | 72,053                     |
| Deposits on real estate under option or contract                               | 31,104                           | 38,788                     | 31,169                     |
| Inventory (Note 5)   | 1,500,608                        | 1,421,986                  | 1,609,485                  |
| Operating properties and equipment, net (Note 9)                               | 17,305                           | 17,386                     | 13,517                     |
| Intangible assets, net (Note 10)   | 6,360                            | 6,494                      | 7,028                      |
| Investments in unconsolidated entities (Note 7)                                | 15,672                           | 20,923                     | 20,599                     |
| Income tax receivable from Weyerhaeuser (Note 11 and Note 22)                  | —                                | —                          | 14                         |
| Deferred tax assets (Note 22)  | 287,946                          | 288,983                    | 179,585                    |
| Prepaid expenses and other assets (Note 6)                                     | 44,240                           | 50,997                     | 42,582                     |
| Assets of discontinued operations (Note 24)                                    | —                                | —                          | 18,293                     |
| <b>Total assets</b>  | <b><u>\$ 1,941,998</u></b>       | <b><u>\$ 1,910,464</u></b> | <b><u>\$ 1,999,537</u></b> |
| <b>Liabilities</b>   |                                  |                            |                            |
| Accounts payable   | \$ 43,807                        | \$ 40,755                  | \$ 40,875                  |
| Accounts payable to Weyerhaeuser (Note 11)                                     | 33,180                           | 18,921                     | 18,661                     |
| Accrued payroll liabilities  | 33,724                           | 48,232                     | 51,774                     |
| Other accrued liabilities (Note 17)  | 100,178                          | 119,302                    | 94,005                     |
| Debt payable to third parties (Note 12)  | —                                | —                          | 109,255                    |
| Debt payable to Weyerhaeuser (Note 11)   | 868,809                          | 834,589                    | 689,553                    |
| Debt (nonrecourse to the Company) held by variable interest entities (Note 8)  | 6,041                            | 6,571                      | 989                        |
| Income tax payable to Weyerhaeuser (Note 11 and Note 22)                       | 19,625                           | 16,577                     | —                          |
| Liabilities of discontinued operations (Note 24)                               | —                                | —                          | 698                        |
| Commitments and contingencies (Note 16)  | —                                | —                          | —                          |
| <b>Total liabilities</b>   | <b><u>1,105,364</u></b>          | <b><u>1,084,947</u></b>    | <b><u>1,005,810</u></b>    |
| <b>Equity</b>  |                                  |                            |                            |
| Shareholder's interest:  |                                  |                            |                            |
| Common shares: \$.04 par value; 100,000,000 authorized, issued and outstanding | 4,000                            | 4,000                      | 4,000                      |
| Other capital  | 332,624                          | 330,886                    | 338,114                    |
| Retained earnings  | 469,791                          | 462,210                    | 611,665                    |
| Total shareholder's interest   | 806,415                          | 797,096                    | 953,779                    |
| Noncontrolling interests (Note 8)  | 30,219                           | 28,421                     | 39,948                     |
| <b>Total equity</b>  | <b><u>836,634</u></b>            | <b><u>825,517</u></b>      | <b><u>993,727</u></b>      |
| <b>Total liabilities and equity</b>  | <b><u>\$ 1,941,998</u></b>       | <b><u>\$ 1,910,464</u></b> | <b><u>\$ 1,999,537</u></b> |

See accompanying *Notes to Consolidated Financial Statements* .

## Table of Contents

### CONSOLIDATED STATEMENT OF CASH FLOWS

DOLLAR AMOUNTS IN THOUSANDS

|   | (UNAUDITED)        |                 | YEAR ENDED      |                |                |
|---|--------------------|-----------------|-----------------|----------------|----------------|
|   | THREE MONTHS ENDED |                 | DECEMBER 31,    | DECEMBER 31,   | DECEMBER 31,   |
|   | MARCH 31,          | MARCH 31,       | 2013            | 2012           | 2011           |
|   | 2014               | 2013            |                 |                |                |
| <b>Cash flows from operations:</b>  |                    |                 |                 |                |                |
| Net earnings (loss)   | \$ 7,581           | \$ 134          | \$ (149,455)    | \$ 61,481      | \$ 35,528      |
| Noncash charges (credits) to operations:  |                    |                 |                 |                |                |
| Depreciation and amortization   | 2,882              | 2,727           | 13,489          | 11,798         | 12,241         |
| Deferred income taxes, net<br>(Note 22)   | 1,029              | 105             | (108,869)       | 38,000         | 27,487         |
| Share-based compensation expense<br>(Note 15)                                     | 1,293              | 1,121           | 5,002           | 3,854          | 3,026          |
| Equity in (earnings)loss of<br>unconsolidated entities                            | 68                 | 103             | (2)             | (2,453)        | (2,313)        |
| Net gain on sale of discontinued<br>operations (Note 24)                          | —                  | —               | (1,946)         | —              | —              |
| Charge for early extinguishment of<br>debt  | —                  | —               | 645             | —              | —              |
| Charges for impairment of assets<br>(Note 19)                                     | 468                | 493             | 345,448         | 3,591          | 11,019         |
| Change in:  |                    |                 |                 |                |                |
| Receivables, net  | 24,972             | (3,302)         | 11,656          | (31,960)       | 11,677         |
| Income taxes receivable from or<br>payable to Weyerhaeuser                        | 3,014              | (2,068)         | 33,033          | 20,137         | (22,758)       |
| Inventory   | (67,902)           | (59,350)        | (165,471)       | (74,939)       | (11,759)       |
| Accounts payable, accrued payroll<br>liabilities and other accrued<br>liabilities | (10,420)           | (9,529)         | 13,662          | 26,632         | (49,071)       |
| Deposits, prepaid expenses and<br>other assets                                    | 11,811             | (2,629)         | (19,391)        | 3,845          | (834)          |
| Returns on investments in<br>unconsolidated entities                              | —                  | —               | 1,111           | 2,680          | 2,634          |
| Other operating cash flows  | 31                 | 824             | 84              | 180            | 59             |
| <b>Net cash flows from operations</b>   | <b>(25,173)</b>    | <b>(71,371)</b> | <b>(21,004)</b> | <b>62,846</b>  | <b>16,936</b>  |
| <b>Cash flows from investing activities:</b>                                      |                    |                 |                 |                |                |
| Property and equipment purchases  | (1,663)            | (1,636)         | (10,350)        | (3,529)        | (2,937)        |
| Proceeds from sale of property and<br>equipment                                   | 4                  | —               | 5               | 4              | 49             |
| (Investments in) distributions from<br>unconsolidated entities                    | (473)              | (100)           | (1,571)         | (232)          | 67             |
| Proceeds from sale of discontinued<br>operations (Note 24)                        | —                  | —               | 3,623           | —              | —              |
| Proceeds from sale of partnership<br>interests (Note 7)                           | —                  | —               | —               | 1,634          | —              |
| <b>Cash flows from investing activities</b>                                       | <b>(2,132)</b>     | <b>(1,736)</b>  | <b>(8,293)</b>  | <b>(2,123)</b> | <b>(2,821)</b> |

## Table of Contents

DOLLAR AMOUNTS IN THOUSANDS

|  | (UNAUDITED)        |                 | YEAR ENDED      |                 |                 |
|--|--------------------|-----------------|-----------------|-----------------|-----------------|
|  | THREE MONTHS ENDED |                 | DECEMBER 31,    | DECEMBER 31,    | DECEMBER 31,    |
|  | MARCH 31,          | MARCH 31,       | 2013            | 2012            | 2011            |
|  | 2014               | 2013            |                 |                 |                 |
| <b>Cash flows from financing activities:</b>   |                    |                 |                 |                 |                 |
| Payments on debt payable to third parties (Note 12)  | —                  | —               | (109,900)       | (175,805)       | (64,874)        |
| Changes in debt payable to Weyerhaeuser, net   | 34,220             | 72,515          | 145,036         | 120,810         | 60,547          |
| Change in book overdrafts  | (5,639)            | 3,218           | 6,821           | (2,809)         | 2,114           |
| Net proceeds from debt held by variable interest entities  | (803)              | —               | 5,582           | —               | —               |
| Contributions from noncontrolling interests  | 854                | —               | 925             | 233             | 2,294           |
| Distributions to noncontrolling interests  | (2,985)            | —               | (8,046)         | —               | —               |
| Excess tax benefits of share-based awards (Note 15)  | 486                | —               | 2,097           | 1,241           | 799             |
| Return of capital to Weyerhaeuser  | —                  | (3,567)         | (13,920)        | (2,351)         | (12,925)        |
| <b>Cash flows from financing activities</b>  | <b>26,133</b>      | <b>72,166</b>   | <b>28,595</b>   | <b>(58,681)</b> | <b>(12,045)</b> |
| Net change in cash   | (1,172)            | (941)           | (702)           | 2,042           | 2,070           |
| Cash at beginning of year  | 4,510              | 5,212           | 5,212           | 3,170           | 1,100           |
| <b>Cash at end of period</b>   | <b>\$ 3,338</b>    | <b>\$ 4,271</b> | <b>\$ 4,510</b> | <b>\$ 5,212</b> | <b>\$ 3,170</b> |
| Cash paid (received) during the year for:  |                    |                 |                 |                 |                 |
| Interest, net of amounts capitalized of \$3,809, \$4,470, \$19,081, \$22,059 and \$21,520 (Note 5) | \$ —               | \$ —            | \$ 2,091        | \$ 8,191        | \$ 3,333        |
| Income taxes, net  | \$ —               | \$ 1,335        | \$ (10,521)     | \$ (20,744)     | \$ 13,331       |
| <b>Supplemental disclosure of noncash investing and financing activities:</b>                      |                    |                 |                 |                 |                 |
| Effect of net consolidation and de-consolidation of variable interest entities:                    |                    |                 |                 |                 |                 |
| Increase (decrease) in consolidated inventory not owned  | 5,629              | (13,927)        | \$ (7,411)      | \$ 39,057       | \$ —            |
| Increase (decrease) in deposits on real estate under option or contract and other assets           | (1,700)            | 3,483           | 3,005           | (4,511)         | —               |
| Decrease in debt held by variable interest entities  | —                  | (688)           | —               | 7,293           | —               |
| (Increase) decrease in noncontrolling interests  | (3,929)            | 11,132          | 4,406           | (41,839)        | —               |
| Acquisition of joint venture interest in legal settlement  | —                  | —               | —               | —               | 5,086           |

See accompanying *Notes to Consolidated Financial Statements* .

## Table of Contents

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

DOLLAR AMOUNTS IN THOUSANDS

|  | (UNAUDITED)        |            | YEAR ENDED   |              |              |
|--|--------------------|------------|--------------|--------------|--------------|
|  | THREE MONTHS ENDED |            | DECEMBER 31, | DECEMBER 31, | DECEMBER 31, |
|  | MARCH 31,          | MARCH 31,  | 2013         | 2012         | 2011         |
|  | 2014               | 2013       |              |              |              |
| <b>Common shares:</b>  |                    |            |              |              |              |
| Balance at beginning and end of period                                 | \$ 4,000           | \$ 4,000   | \$ 4,000     | \$ 4,000     | \$ 4,000     |
| <b>Other capital:</b>  |                    |            |              |              |              |
| Balance at beginning of year   | \$ 330,886         | \$ 338,115 | \$ 338,114   | \$ 337,120   | \$ 346,863   |
| Weyerhaeuser share-based compensation                                  | 1,293              | 1,121      | 5,002        | 3,854        | 3,026        |
| Return of capital to Weyerhaeuser                                      | —                  | (3,567)    | (13,920)     | (2,351)      | (12,925)     |
| Excess tax (cost) benefit of share-based awards, net                   | 445                | 748        | 1,690        | (509)        | 156          |
| Balance at end of period   | \$ 332,624         | \$ 336,417 | \$ 330,886   | \$ 338,114   | \$ 337,120   |
| <b>Retained earnings:</b>  |                    |            |              |              |              |
| Balance at beginning of year   | \$ 462,210         | \$ 611,665 | \$ 611,665   | \$ 550,184   | \$ 514,656   |
| Net earnings (loss) attributable to common shareholder                 | 7,581              | 134        | (149,455)    | 61,481       | 35,528       |
| Balance at end of period   | \$ 469,791         | \$ 611,799 | \$ 462,210   | \$ 611,665   | \$ 550,184   |
| <b>Total shareholder's interest:</b>                                   |                    |            |              |              |              |
| Balance at end of period   | \$ 806,415         | \$ 952,216 | \$ 797,096   | \$ 953,779   | \$ 891,304   |
| <b>Noncontrolling interests:</b>                                       |                    |            |              |              |              |
| Balance at beginning of year   | \$ 28,421          | \$ 39,948  | \$ 39,948    | \$ (1,597)   | \$ (3,597)   |
| Contributions from (distributions to) noncontrolling interests, net    | (2,131)            | —          | (7,121)      | 233          | 2,294        |
| Net effect of consolidations, de-consolidations and other transactions | 3,929              | (11,132)   | (4,406)      | 41,312       | (294)        |
| Balance at end of period   | \$ 30,219          | \$ 28,816  | \$ 28,421    | \$ 39,948    | \$ (1,597)   |
| <b>Total equity:</b>   |                    |            |              |              |              |
| Balance at end of period   | \$ 836,634         | \$ 981,032 | \$ 825,517   | \$ 993,727   | \$ 889,707   |

See accompanying *Notes to Consolidated Financial Statements* .

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## Table of Contents

### *Index for Notes to Consolidated Financial Statements*

|  |      |
|--|------|
| NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES         | F-9  |
| NOTE 2: BUSINESS SEGMENTS                                  | F-13 |
| NOTE 3: NET EARNINGS PER SHARE                             | F-15 |
| NOTE 4: RECEIVABLES  | F-16 |
| NOTE 5: INVENTORY  | F-16 |
| NOTE 6: PREPAID EXPENSES AND OTHER ASSETS                  | F-18 |
| NOTE 7: INVESTMENTS IN UNCONSOLIDATED ENTITIES             | F-18 |
| NOTE 8: VARIABLE INTEREST ENTITIES                         | F-19 |
| NOTE 9: OPERATING PROPERTIES AND EQUIPMENT                 | F-20 |
| NOTE 10: INTANGIBLE ASSETS                                 | F-21 |
| NOTE 11: RELATIONSHIP AND TRANSACTIONS WITH WEYERHAEUSER   | F-22 |
| NOTE 12: DEBT AND REVOLVING LINES OF CREDIT                | F-24 |
| NOTE 13: FAIR VALUE OF FINANCIAL INSTRUMENTS               | F-25 |
| NOTE 14: WEYERHAEUSER EMPLOYEE BENEFIT PLANS               | F-26 |
| NOTE 15: WEYERHAEUSER SHARE-BASED COMPENSATION             | F-28 |
| NOTE 16: COMMITMENTS AND CONTINGENT LIABILITIES            | F-32 |
| NOTE 17: OTHER ACCRUED LIABILITIES                         | F-34 |
| NOTE 18: SHAREHOLDER'S INTEREST                            | F-35 |
| NOTE 19: REAL ESTATE IMPAIRMENTS AND CHARGES               | F-36 |
| NOTE 20: CHARGES FOR RESTRUCTURING                         | F-38 |
| NOTE 21: OTHER INCOME (EXPENSE), NET                       | F-39 |
| NOTE 22: INCOME TAXES                                      | F-40 |
| NOTE 23: TRANSACTION AGREEMENT WITH TRI POINTE HOMES, INC. | F-43 |
| NOTE 24: DISCONTINUED OPERATIONS                           | F-44 |

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## Table of Contents

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### ***BUSINESS***

Weyerhaeuser Real Estate Company (“WRECO”) was founded in 1970. WRECO is primarily engaged in the design, construction and sale of single-family homes in California, Texas, Arizona, Washington, Nevada, Maryland and Virginia. WRECO’s core markets are Southern California, Houston, Phoenix and Tucson, the Puget Sound region of Washington State, Las Vegas, Richmond and the Washington, DC suburbs. In addition, WRECO is a developer of master planned communities, which include residential lots for its own use, lots for sale to other homebuilders, and the sale of commercial and multi-family properties, primarily in Southern California.

WRECO is a wholly owned subsidiary of Weyerhaeuser NR Company, which is a wholly owned subsidiary of Weyerhaeuser Company. Substantially all of WRECO’s operations are conducted through five direct subsidiaries: Maracay Homes LLC (“Maracay”), Pardee Homes (“Pardee”), The Quadrant Corporation (“Quadrant”), Trendmaker Homes, Inc. (“Trendmaker”) and Winchester Homes, Inc. (“Winchester”).

#### ***BASIS OF PRESENTATION***

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Our consolidated financial statements provide an overall view of our results of operations and financial condition. They include our accounts and the accounts of entities that we control, including:

- all wholly owned subsidiaries;
- majority-owned entities, with our co-investors’ ownership share of these entities recorded as noncontrolling interests, which is presented as a separate component of equity;
- variable interest entities in which we may not have any ownership interest, but we are the primary beneficiary, with the owners’ share of these entities recorded as noncontrolling interests; and
- investments in and our share of net earnings or losses of entities accounted for under the equity method.

They do not include our intercompany transactions and accounts, which are eliminated in consolidation.

On January 17, 2014, we effected a 100 for 1 stock split of our common shares, increasing the number of outstanding shares from 1 million to 100 million. All share and per share data has been restated to retroactively reflect the stock split for all periods presented.

Throughout these Notes to the Consolidated Financial Statements, unless specified otherwise, references to “Weyerhaeuser Real Estate Company,” “WRECO,” “we” and “our” refer to the consolidated company. We use the term “Weyerhaeuser” to refer to our parent entities, which may be either Weyerhaeuser Company, Weyerhaeuser NR Company, or both.

#### ***ESTIMATES***

We make estimates and assumptions during our reporting periods and at the date of our financial statements. Significant estimates include:

- reported amounts of assets, liabilities and equity;
- disclosure of contingent assets and liabilities; and
- reported amounts of revenues and expenses.

While we do our best in preparing these estimates, actual results can and do differ from those estimates and assumptions.

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## Table of Contents

### **UNAUDITED INTERIM FINANCIAL DATA**

The accompanying balance sheet as of March 31, 2014 and the statements of operations, cash flows and changes in equity for the three months ended March 31, 2014 and 2013 are unaudited. The unaudited interim financial statements have been prepared on a basis consistent with the audited financial statements and, in the opinion of management, reflect adjustments (consisting of normal recurring adjustments) considered necessary to state fairly WRECO's financial position as of March 31, 2014. The financial data and other information disclosed in these notes to the financial statements related to the three months ended March 31, 2014 and 2013 are unaudited. The results for the three months ended March 31, 2014 are not necessarily indicative of the results to be expected for the year ending December 31, 2014 or for any other interim period.

### **REVENUE RECOGNITION**

We recognize revenue from single-family home sales and non-single-family activities when deliveries or closings have occurred, required down payments have been received, title and possession have been transferred to the customer, and we have no substantial continuing involvement with the real estate and all other criteria for sale and profit recognition are satisfied.

### **EARNINGS PER SHARE**

We compute basic earnings per share by dividing net earnings attributable to common shareholder by the weighted average number of common shares outstanding during the period. We currently have no items that would create diluted earnings per share.

### **RECEIVABLES**

We record receivables at carrying values that approximate fair values. See *Note 4: Receivables* and *Note: 13 Fair Value of Financial Instruments*. Discounts are recorded to adjust non-interest-bearing notes and contracts receivable or notes and contracts with below-market-rate interest terms to estimated fair value on the date of issuance. Discounts are amortized into interest income over the remaining term of the note or contract receivable. Allowances are determined based on historical losses and management's judgment as to future collectability. The allowance represents our best estimate of the amounts of credit losses in the existing receivables.

### **INVENTORY**

Inventory is stated at cost unless events and circumstances trigger an impairment. Inventory includes costs associated with land acquisition, land development, and home construction, including capitalized interest and real estate taxes incurred during the development and construction period, and direct overhead costs related to development and construction activities. In accordance with ASC 835-20, *Capitalization of Interest*, interest is capitalized to qualified assets including homes under construction, land and lots under development and land being processed for development. Interest incurred on debt levels in excess of these qualified assets is expensed as incurred. Land and land development costs are allocated to lots or acreage held for sale based on total acreage in a master planned community or based on specific identification or the relative sales value of homes in a residential community. Land and land development costs are allocated to homebuilding inventory when construction begins and include both actual costs incurred to date and estimated costs expected to be incurred over the life of the community. The cost of inventory, including both direct construction costs and allocated land and lot costs, are recognized in costs and expenses when the sale of inventory closes and delivery occurs or when inventory is impaired.

Land is classified as acreage listed for sale when it has been approved for sale in its current condition, is being actively marketed for sale, and is expected to be sold within one year.

Consolidated not owned inventory is recorded at estimated fair value when the asset is first consolidated plus development and construction costs incurred while consolidated.

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## **Table of Contents**

### ***DEPOSITS ON REAL ESTATE UNDER OPTION OR CONTRACT***

Deposits paid related to purchase contracts and land options are recorded and classified as deposits on real estate under option or contract until the related land is purchased. Deposits are reclassified as a component of inventory at the time the deposit is used to offset the acquisition price of the land or lots based on the terms of the underlying agreements. To the extent they are non-refundable, deposits are charged to expense if the land acquisition is terminated or no longer considered probable.

### ***IMPAIRMENTS***

Long-lived assets, including inventory and deposits, operating properties and equipment, intangible assets, investments in unconsolidated entities, and certain other assets, are subject to a review for impairment if events or changes in circumstances or changes in intended use indicate that the carrying amount of the asset may not be recoverable from future undiscounted net cash flows expected to be generated by the asset or asset group. When the carrying amount is not expected to be recoverable, we record an impairment loss for the difference between the asset's carrying value and its estimated fair value. The determination of fair value is based on independent appraisals and market pricing of comparable assets, when available, or the discounted value of estimated future net cash flows from these assets. These estimates are based upon management's assessment, which may require significant judgments and estimates, and actual results could differ from these fair value estimates. Write-downs of impaired homebuilding-related assets are recorded in the consolidated statement of operations as impairments and related charges, homebuilding and are included in operating costs and expenses.

### ***ADVERTISING COSTS***

The cost of model homes is capitalized to inventory and is recorded as cost of sales when the model home is sold to a third party. Costs related to certain other tangible assets used for single-family home sales and marketing purposes, such as incremental model complex costs, model furnishings and sales offices, are generally capitalized as either operating properties and equipment or other assets in the consolidated balance sheet. The cost of these assets are amortized into sales and marketing expense on either a straight-line basis over the estimated useful life of the asset or on a pro rata basis as homes within each community are delivered. Advertising costs are expensed as incurred and are included as sales and marketing expense in the accompanying consolidated statement of operations. Advertising costs expensed as incurred were approximately \$3.3 million (unaudited) and \$3.7 million (unaudited) for the three months ended March 31, 2014 and 2013, and \$15.5 million, \$13.7 million, \$12.0 million for the years ended December 31, 2013, 2012 and 2011, respectively.

### ***WARRANTY RESERVES***

We accrue warranty reserves as home deliveries occur. The accrual is generally based on a percentage of single-family home sales revenue, but amounts accrued on homes delivered will vary based on product type and geographical area. Warranty coverage also varies depending on state and local laws. The warranty reserve is included in other accrued liabilities in the accompanying consolidated balance sheet and represents expected future costs based on our historical experience in previous years. We periodically review the adequacy of the remaining reserve balance and make adjustments as deemed necessary. We carry insurance that covers certain warranty expenditures at Pardee. We record expected recoveries from insurance carriers when proceeds are probable and estimable.

### ***INVESTMENTS IN UNCONSOLIDATED ENTITIES***

We have investments in unconsolidated entities over which we have significant influence that we account for using the equity method with taxes provided on undistributed earnings. We record earnings and accrue taxes in the period that the earnings are recorded by our affiliates. Under the equity method, our share of the unconsolidated entities' earnings or loss is included in equity in earnings of unconsolidated entities in the accompanying consolidated statement of operations. We evaluate our investments in unconsolidated entities for impairment when events and circumstances indicate that the carrying value of the investment may not be recoverable.

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## Table of Contents

### ***FAIR VALUE MEASUREMENTS***

We estimate fair values when accounting for certain nonfinancial assets—primarily homebuilding inventories (asset groups) measured at fair value when impaired. We estimate the fair values of financial instruments using the methods described in *Note 13: Fair Value of Financial Instruments*. We use a fair value hierarchy when making fair value estimates. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's judgment about what a market participant would assume. The fair value hierarchy consists of the following three levels:

- Level 1—Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2—Inputs are:
  - quoted prices for similar assets or liabilities in an active market,
  - quoted prices for identical or similar assets or liabilities in markets that are not active, or
  - inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.
- Level 3—Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

Determining these estimates requires considerable judgment to interpret appropriate market data. The estimates may be significantly affected by the assumptions used such as discount rates and cash flow projections. Therefore, the estimated fair values may not be the amounts that we would have realized if the assets and liabilities had actually been exchanged.

### ***OPERATING PROPERTIES AND EQUIPMENT***

Operating properties and equipment include regional office buildings and leasehold improvements, office equipment, model home furnishings and capitalized hardware and software costs. We record operating properties and equipment at cost, net of accumulated depreciation. Depreciation is generally calculated on the straight-line method over the estimated service lives of the assets, which range from two to 30 years. We review our operating properties and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

### ***INTANGIBLE ASSETS***

Our intangible assets include trademarks and trade names resulting from our acquisition of Maracay. We amortize these intangible assets on a straight-line basis over their contractual lives or their expected useful lives. We review our intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

### ***WEYERHAEUSER SHARE-BASED COMPENSATION***

Some of our key officers and other employees are selected from time to time by the Compensation Committee of Weyerhaeuser's Board of Directors to participate in Weyerhaeuser's Long-Term Incentive Compensation Plan. We account for share-based compensation in accordance with ASC 718-10, *Compensation—Stock Compensation*. We establish a fair-value based measurement of share-based awards and recognize the cost of the awards in our financial statements. We generally recognize the cost in the consolidated statement of operations on the straight-line method over the period from the grant date to the date when the award is no longer contingent upon the employee providing additional service. For awards that vest upon retirement, the required service period does not extend beyond the date an employee is eligible for retirement, including early retirement. We record a contribution of capital from Weyerhaeuser as share-based compensation expense is recognized in our costs and expenses.

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## Table of Contents

### INCOME TAXES

We are included in the Weyerhaeuser NR Company consolidated federal income tax return and certain state income tax filings. We account for income taxes under the asset and liability method described in *Note 22: Income Taxes*. Our tax provisions and resulting income tax receivable from or payable to Weyerhaeuser NR Company represent the income tax amounts allocated to us on the pro rata share method based upon our actual results. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases and for operating loss and tax credit carryforwards which exist for Weyerhaeuser NR Company and are attributable to our operations. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized by Weyerhaeuser NR Company. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income, and tax planning strategies in making this assessment. See *Note 22: Income Taxes* for additional information regarding our valuation allowance.

### NOTE 2: BUSINESS SEGMENTS

All of our homebuilding operations are primarily engaged in the design, construction and sale of single-family homes in selected metropolitan areas of the United States. In addition, we are a developer of master planned communities, which include residential lots for our own use, lots for sale to other homebuilders, and the sale of commercial and multi-family properties, primarily in Southern California. Our operating segments have been organized by homebuilding subsidiary, which reflects how we manage our business. The following table identifies our segments and the core market areas in which they operate:

| <u>SEGMENT</u> | <u>MARKET AREAS</u>   |
|----------------|---|
| Maracay        | Phoenix and Tucson, Arizona   |
| Pardee         | Los Angeles/Ventura, Inland Empire (Riverside County), and San Diego, California; Las Vegas, Nevada |
| Quadrant       | Puget Sound region of Washington State  |
| Trendmaker     | Houston, Texas  |
| Winchester     | Washington, D.C. suburbs; Richmond, Virginia  |

Income and expenses not related to or allocated to individual operating segments are held in the corporate and other segment. They include a portion of items such as: corporate general and administrative costs, share-based compensation costs, and interest expense not capitalized.

## Table of Contents

### KEY FINANCIAL DATA BY BUSINESS SEGMENT

DOLLAR AMOUNTS IN THOUSANDS

|  | (UNAUDITED)        |                   |                      |                      |                      |
|--|--------------------|-------------------|----------------------|----------------------|----------------------|
|  | THREE MONTHS ENDED |                   | YEAR ENDED           |                      |                      |
|  | MARCH 31,<br>2014  | MARCH 31,<br>2013 | DECEMBER 31,<br>2013 | DECEMBER 31,<br>2012 | DECEMBER 31,<br>2011 |
| <b>Total revenues:</b>   |                    |                   |                      |                      |                      |
| Maracay  | \$ 35,230          | \$ 18,114         | \$ 145,822           | \$ 103,222           | \$ 59,836            |
| Pardee   | 72,462             | 87,124            | 519,074              | 356,489              | 304,276              |
| Quadrant   | 32,254             | 24,765            | 127,237              | 127,785              | 102,434              |
| Trendmaker   | 61,400             | 46,020            | 260,566              | 298,396              | 185,766              |
| Winchester   | 46,786             | 19,493            | 222,013              | 184,414              | 184,683              |
| Corporate and other  | —                  | —                 | —                    | —                    | 750                  |
| <b>Consolidated</b>  | <b>\$ 248,132</b>  | <b>\$ 195,516</b> | <b>\$ 1,274,712</b>  | <b>\$ 1,070,306</b>  | <b>\$ 837,745</b>    |
| <b>Single-family home sales revenue:</b>                                   |                    |                   |                      |                      |                      |
| Maracay  | \$ 35,230          | \$ 18,114         | \$ 145,822           | \$ 103,222           | \$ 59,836            |
| Pardee   | 67,397             | 74,977            | 477,956              | 270,583              | 255,095              |
| Quadrant   | 31,089             | 23,777            | 116,270              | 121,311              | 95,733               |
| Trendmaker   | 61,400             | 46,020            | 260,566              | 199,933              | 175,378              |
| Winchester   | 46,786             | 19,493            | 217,816              | 175,547              | 182,029              |
| <b>Consolidated</b>  | <b>\$ 241,902</b>  | <b>\$ 182,381</b> | <b>\$ 1,218,430</b>  | <b>\$ 870,596</b>    | <b>\$ 768,071</b>    |
| <b>Earnings (loss) from continuing operations<br/>before income taxes:</b> |                    |                   |                      |                      |                      |
| Maracay  | \$ 3,623           | \$ (138)          | \$ 10,438            | \$ 5,347             | \$ (2,230)           |
| Pardee   | 7,137              | 5,278             | (258,138)            | 87,691               | 63,311               |
| Quadrant   | 781                | 96                | 1,504                | (2,851)              | (15,116)             |
| Trendmaker   | 6,377              | 4,388             | 28,452               | 29,472               | 15,263               |
| Winchester   | 4,169              | (1,084)           | 24,561               | 18,537               | 24,135               |
| Corporate and other  | (9,977)            | (9,334)           | (44,271)             | (38,567)             | (31,091)             |
| <b>Consolidated</b>  | <b>\$ 12,110</b>   | <b>\$ (794)</b>   | <b>\$ (237,454)</b>  | <b>\$ 99,629</b>     | <b>\$ 54,272</b>     |
| <b>Impairments and related charges,<br/>homebuilding:</b>                  |                    |                   |                      |                      |                      |
| Maracay  | \$ 215             | \$ 30             | \$ 203               | \$ 181               | \$ 1,997             |
| Pardee   | 25                 | 217               | 343,661              | 133                  | 804                  |
| Quadrant   | 121                | 165               | 1,146                | 2,575                | 7,668                |
| Trendmaker   | 24                 | —                 | 7                    | —                    | 211                  |
| Winchester   | 83                 | 81                | 431                  | 702                  | 339                  |
| <b>Consolidated</b>  | <b>\$ 468</b>      | <b>\$ 493</b>     | <b>\$ 345,448</b>    | <b>\$ 3,591</b>      | <b>\$ 11,019</b>     |
| <b>Charges for Restructuring</b>   |                    |                   |                      |                      |                      |
| Maracay  | \$ —               | \$ —              | \$ 7                 | \$ 11                | \$ 58                |
| Pardee   | 411                | 377               | 3,806                | 1,887                | 2,078                |
| Quadrant   | —                  | —                 | 1,396                | 345                  | 95                   |
| Trendmaker   | —                  | 63                | 70                   | 217                  | 13                   |
| Winchester   | —                  | —                 | —                    | —                    | 103                  |
| Corporate and Other  | 1,305              | —                 | 5,659                | —                    | 454                  |
| <b>Consolidated</b>  | <b>\$ 1,716</b>    | <b>\$ 440</b>     | <b>\$ 10,938</b>     | <b>\$ 2,460</b>      | <b>\$ 2,801</b>      |

## Table of Contents

|                          | (UNAUDITED)                |                            |                            |
|--------------------------|----------------------------|----------------------------|----------------------------|
|                          | MARCH 31,<br>2014          | DECEMBER 31,<br>2013       | DECEMBER 31,<br>2012       |
| <b>Inventory:</b>        |                            |                            |                            |
| Maracay                  | \$ 141,769                 | \$ 123,905                 | \$ 65,527                  |
| Pardee                   | 894,538                    | 870,522                    | 1,209,911                  |
| Quadrant                 | 118,094                    | 107,164                    | 85,819                     |
| Trendmaker               | 137,724                    | 129,514                    | 101,686                    |
| Winchester               | 208,483                    | 190,881                    | 146,542                    |
| <b>Consolidated</b>      | <b><u>\$ 1,500,608</u></b> | <b><u>\$ 1,421,986</u></b> | <b><u>\$ 1,609,485</u></b> |
| <b>Receivables, net:</b> |                            |                            |                            |
| Maracay                  | \$ 2,238                   | \$ 1,718                   | \$ 397                     |
| Pardee                   | 28,726                     | 53,976                     | 66,048                     |
| Quadrant                 | 438                        | 1,269                      | 1,074                      |
| Trendmaker               | 1,218                      | 259                        | 16                         |
| Winchester               | 2,805                      | 3,175                      | 4,512                      |
| Corporate and other      | —                          | —                          | 6                          |
| <b>Consolidated</b>      | <b><u>\$ 35,425</u></b>    | <b><u>\$ 60,397</u></b>    | <b><u>\$ 72,053</u></b>    |
| <b>Total assets:</b>     |                            |                            |                            |
| Maracay                  | \$ 154,157                 | \$ 138,552                 | \$ 73,536                  |
| Pardee                   | 964,360                    | 976,262                    | 1,323,751                  |
| Quadrant                 | 130,697                    | 125,456                    | 98,961                     |
| Trendmaker               | 144,128                    | 134,628                    | 105,146                    |
| Winchester               | 250,335                    | 234,419                    | 184,249                    |
| Corporate and other      | 298,321                    | 301,147                    | 213,894                    |
| <b>Consolidated</b>      | <b><u>\$ 1,941,998</u></b> | <b><u>\$ 1,910,464</u></b> | <b><u>\$ 1,999,537</u></b> |

Total assets for the corporate and other segment include income tax related assets and assets from discontinued operations. See *Note 24: Discontinued Operations* for more information regarding discontinued operations.

### NOTE 3: NET EARNINGS PER SHARE

Our basic earnings per share attributable to our common shareholder were:

#### DOLLAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE FIGURES

|   | (UNAUDITED)        |                   |                      |                      |                      |
|---|--------------------|-------------------|----------------------|----------------------|----------------------|
|   | THREE MONTHS ENDED |                   | YEAR ENDED           |                      |                      |
|   | MARCH 31,<br>2014  | MARCH 31,<br>2013 | DECEMBER 31,<br>2013 | DECEMBER 31,<br>2012 | DECEMBER 31,<br>2011 |
| Net earnings (loss) attributable to common shareholder    | \$ 7,581           | \$ 134            | \$ (149,455)         | \$ 61,481            | \$ 35,528            |
| Weighted average common shares outstanding (in thousands) | 100,000            | 100,000           | 100,000              | 100,000              | 100,000              |
| Net earnings (loss) per common share                      | \$ 0.08            | —                 | \$ (1.49)            | \$ 0.61              | \$ 0.36              |

Net earnings per share is net earnings attributable to common shareholder divided by the weighted average number of our outstanding common shares. For all periods presented above, there was no dilutive effect on our basic net earnings per common share.

## Table of Contents

### NOTE 4: RECEIVABLES

Receivables consisted of the following:

|   | (UNAUDITED)       |                      |                      |
|---|-------------------|----------------------|----------------------|
|   | MARCH 31,<br>2014 | DECEMBER 31,<br>2013 | DECEMBER 31,<br>2012 |
| Accounts receivable                         | \$ 9,337          | \$ 10,066            | \$ 5,530             |
| Warranty receivable                         | 11,761            | 12,489               | 13,655               |
| Notes and contracts receivable              | 16,263            | 41,019               | 57,284               |
| Other                                       | —                 | 13                   | —                    |
| Total receivables                           | <u>37,361</u>     | <u>63,587</u>        | <u>76,469</u>        |
| Discounts on notes and contracts receivable | —                 | (1,258)              | (2,631)              |
| Allowances for uncollectible accounts       | (1,936)           | (1,932)              | (1,785)              |
| Total discounts and allowances              | <u>(1,936)</u>    | <u>(3,190)</u>       | <u>(4,416)</u>       |
| Receivables, less discounts and allowances  | <u>\$ 35,425</u>  | <u>\$ 60,397</u>     | <u>\$ 72,053</u>     |

Accounts receivable generally represents pending wire transfers on individual home deliveries. These receivables typically clear within a matter of days following the date of the balance sheet. Warranty receivables are related to an insurance recovery program at Pardee. For more information on product warranties, see *Note 17: Other Accrued Liabilities*. Notes and contracts receivable generally originate from real estate sales of land and lots and are secured by our right to foreclose on the property if the purchaser defaults on the loan. Notes and contracts receivable as of March 31, 2014 mature in 2014-2015 (unaudited).

### NOTE 5: INVENTORY

Inventories consisted of the following:

|   | (UNAUDITED)         |                      |                      |
|---|---------------------|----------------------|----------------------|
|   | MARCH 31,<br>2014   | DECEMBER 31,<br>2013 | DECEMBER 31,<br>2012 |
| Real estate under development and for sale: |                     |                      |                      |
| Dwelling units:                             |                     |                      |                      |
| Single-family homes                         | \$ 338,463          | \$ 308,856           | \$ 207,471           |
| Model homes                                 | 58,126              | 53,351               | 41,876               |
|   | <u>396,589</u>      | <u>362,207</u>       | <u>249,347</u>       |
| Residential lots                            | 501,152             | 456,100              | 400,070              |
| Commercial acreage                          | 6,120               | 6,069                | 7,106                |
| Acreage listed for sale                     | 1,014               | 1,063                | 1,290                |
| Other inventories                           | —                   | —                    | 726                  |
|   | <u>904,875</u>      | <u>825,439</u>       | <u>658,539</u>       |
| Land under development                      | 286,742             | 292,747              | 307,572              |
| Land held for future use                    | 264,829             | 264,120              | 596,217              |
| Consolidated inventory not owned            | 44,162              | 39,680               | 47,157               |
| Total                                       | <u>\$ 1,500,608</u> | <u>\$ 1,421,986</u>  | <u>\$ 1,609,485</u>  |

Inventories are comprised of the following:

- Real estate under development and for sale:
  - Dwelling units include both in-process and completed single-family homes and the lot costs allocated to those units.

## Table of Contents

- Residential lots are comprised of both in-process and completed residential lots that have not yet been released for home construction.
- Commercial acreage includes land zoned for commercial use and may be finished or under development.
- Acreage listed for sale represents land the company is actively marketing for sale.
- Land under development includes land undergoing development, entitlement or other activities to prepare it for its intended use.
- Land held for future use consists of land not currently undergoing development work or entitlement activities.
- Consolidated inventory not owned represents land under contract, but owned by consolidated variable interest entities. Additional information about variable interest entities can be found in *Note 8: Variable Interest Entities*.

Inventories are stated at cost unless events and circumstances trigger an impairment. More information about real estate asset impairments can be found in *Note 19: Real Estate and Investment Impairments and Charges*.

Inventories include interest that has been capitalized to assets while in process of construction or development. The change in our capitalized interest was as follows:

### DOLLAR AMOUNTS IN THOUSANDS

|  | (UNAUDITED)<br>THREE MONTHS ENDED |                   | YEAR ENDED           |                      |                      |
|--|-----------------------------------|-------------------|----------------------|----------------------|----------------------|
|  | MARCH 31,<br>2014                 | MARCH 31,<br>2013 | DECEMBER 31,<br>2013 | DECEMBER 31,<br>2012 | DECEMBER 31,<br>2011 |
| Capitalized interest, beginning of year            | \$ 138,233                        | \$ 155,823        | \$ 155,823           | \$ 164,056           | \$ 165,826           |
| Interest incurred                                  | 4,038                             | 5,023             | 22,674               | 27,038               | 23,736               |
| Interest expensed, not eligible for capitalization | (229)                             | (553)             | (3,593)              | (4,979)              | (2,216)              |
| Interest capitalized                               | 3,809                             | 4,470             | 19,081               | 22,059               | 21,520               |
| Interest amortized to costs and expenses           | (4,063)                           | (6,741)           | (36,671)             | (30,292)             | (23,290)             |
| Capitalized interest, end of period                | <u>\$ 137,979</u>                 | <u>\$ 153,552</u> | <u>\$ 138,233</u>    | <u>\$ 155,823</u>    | <u>\$ 164,056</u>    |

Interest not eligible for capitalization is included in other income (expense), net in the accompanying consolidated statement of operations. Interest amortized to costs and expenses consists primarily of interest expensed through costs and expenses for single-family homes or land and lots in the accompanying consolidated statement of operations, as homes are delivered or land and lot sales are closed.

## Table of Contents

### NOTE 6: PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets were comprised of the following:

| <u>DOLLAR AMOUNTS IN THOUSANDS</u>              | (UNAUDITED)       |                      |                      |
|---|-------------------|----------------------|----------------------|
|   | MARCH 31,<br>2014 | DECEMBER 31,<br>2013 | DECEMBER 31,<br>2012 |
| Refundable fees and other deposits              | \$ 16,075         | \$ 19,566            | \$ 16,778            |
| Pre-acquisition costs                           | 5,796             | 4,751                | 3,037                |
| Prepaid expenses                                | 6,721             | 8,590                | 5,559                |
| Development rights, held for future use or sale | 7,409             | 9,090                | 10,359               |
| Other   | 8,239             | 9,000                | 6,849                |
| Total   | <u>\$ 44,240</u>  | <u>\$ 50,997</u>     | <u>\$ 42,582</u>     |

Refundable fees and other deposits primarily relate to reimbursable project costs that have been submitted for reimbursement from municipalities and utility-related fees that are eligible for reimbursement when certain events occur, such as when additional building permits are issued. These costs may be reimbursed over a period of several years.

Pre-acquisition costs are the costs incurred to evaluate a specific property prior to acquisition, such as legal costs, architectural and other professional fees, environmental studies and soil tests, appraisals, and marketing and feasibility studies. These costs are capitalized to other assets during the feasibility period when the costs are directly identified with the specific property and the cost would be capitalized if the property was already acquired. Pre-acquisition costs are transferred to inventory when the related property is purchased or expensed to impairments and related charges, homebuilding when the acquisition is no longer probable.

Development rights held for future use or sale represent intangible development-related rights such as water rights or density-related rights not expected to be utilized by the company in connection with projects currently owned and under development. These intangible assets are transferable to third parties and may be sold or retained for use by us in future development projects.

### NOTE 7: INVESTMENTS IN UNCONSOLIDATED ENTITIES

As of March 31, 2014, we held equity investments in five active real estate partnerships and limited liability companies. Our participation in these entities may be as a developer, a builder, or an investment partner. Our ownership percentage varies from 7% to 50%, depending on the investment.

#### *INVESTMENTS HELD*

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

| <u>DOLLAR AMOUNTS IN THOUSANDS</u>                          | (UNAUDITED)       |                      |                      |
|---|-------------------|----------------------|----------------------|
|   | MARCH 31,<br>2014 | DECEMBER 31,<br>2013 | DECEMBER 31,<br>2012 |
| Limited partnership and limited liability company interests | \$ 13,194         | \$ 18,454            | \$ 19,151            |
| General partnership interests                               | 2,478             | 2,469                | 1,448                |
| Total   | <u>\$ 15,672</u>  | <u>\$ 20,923</u>     | <u>\$ 20,599</u>     |

## Table of Contents

### 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, there is not a direct relationship between the information presented below and the amounts that are reflected on our consolidated balance sheet as our investment in unconsolidated entities or on our consolidated statement of operations as equity in earnings of unconsolidated entities.

#### Assets and Liabilities of Unconsolidated Entities

| <u>DOLLAR AMOUNTS IN THOUSANDS</u> | (UNAUDITED)       |                      |                      |
|------------------------------------|-------------------|----------------------|----------------------|
|                                    | MARCH 31,<br>2014 | DECEMBER 31,<br>2013 | DECEMBER 31,<br>2012 |
| Assets                             | \$ 153,403        | \$ 274,942           | \$ 304,182           |
| Liabilities                        | \$ 22,038         | \$ 76,248            | \$ 115,120           |

#### Results of Operations From Unconsolidated Entities

| <u>DOLLAR AMOUNTS IN THOUSANDS</u> | (UNAUDITED)        |                   | YEAR ENDED   |              |              |
|------------------------------------|--------------------|-------------------|--------------|--------------|--------------|
|                                    | THREE MONTHS ENDED |                   | DECEMBER 31, | DECEMBER 31, | DECEMBER 31, |
|                                    | MARCH 31,<br>2014  | MARCH 31,<br>2013 | 2013         | 2012         | 2011         |
| Net sales and revenues             | \$ 71              | \$ 2,480          | \$ 6,271     | \$ 15,855    | \$ 12,678    |
| Operating income (loss)            | \$ (940)           | \$ (70)           | \$ (1,250)   | \$ 3,611     | \$ 2,604     |
| Net income (loss)                  | \$ (938)           | \$ (89)           | \$ (1,268)   | \$ 3,391     | \$ 2,558     |

#### NOTE 8: VARIABLE INTEREST ENTITIES

In the ordinary course of business, our homebuilding subsidiaries enter into lot option purchase agreements in order to procure land and residential lots for development and the construction of homes in the future. The use of such 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 lot option purchase agreements, we generally provide a deposit to the seller as consideration for the right to purchase lots at different times in the future, usually at predetermined prices. Such deposits are recorded as deposits on real estate under option or contract in the accompanying consolidated balance sheet.

If the entity holding the lots under option is a variable interest entity (VIE), our deposit represents a variable interest in that entity. 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 and liabilities as inventory and debt (nonrecourse to the company) held by variable interest entities, with the net equity of the VIE owners reflected as noncontrolling interests. VIEs are de-consolidated when we are no longer considered to be the primary beneficiary of the entity. This typically occurs when we acquire the optioned land from the VIE.

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

In determining whether we are the primary beneficiary of a VIE, we consider our ability to control activities of the VIE including, but not limited to the ability to:

- direct entitlement of land,
- determine the budget and scope of land development work,

## Table of Contents

- perform land development activities,
- control financing decisions for the VIE, and
- acquire additional land into the VIE or dispose of land in the VIE not already under contract.

If we conclude that we control such activities of the VIE, we also consider whether we have an obligation to absorb losses of or a right to receive benefits from the VIE.

As of March 31, 2014, we had options to purchase approximately 1,300 (unaudited) residential lots from VIEs we consolidated because we concluded we were the primary beneficiary. As of December 31, 2013 and 2012, we had options to purchase approximately 1,200 residential lots from VIEs we consolidated because we concluded we were the primary beneficiary. Upon initial consolidation of a VIE, we record assets at their estimated fair value. Previously capitalized deposits related to these entities are reclassified out of deposits on real estate under option or contract.

We also had options to purchase lots from entities that were not consolidated. These options may be with VIEs that are not consolidated because we are not the primary beneficiary or with entities that are not VIEs. We had 59,458 (unaudited) lots under option with these entities as of March 31, 2014, 60,134 lots under option with these entities as of December 31, 2013 and 58,921 lots under option with these entities as of December 31, 2012. This includes 56,413 lots under option in connection with a large master planned community north of Las Vegas, NV (the "Coyote Springs Property") which is excluded from the planned transaction with TRI Pointe Homes, Inc. through which WRECO will be divested from Weyerhaeuser ("the TRI Pointe Transaction"). See *Note 23: Transaction Agreement with TRI Pointe Homes, Inc.* for additional information. Information related to options on the Coyote Springs Property is separately identified in the table below.

The following provides a summary of our interests in lot option agreements:

|                               | (UNAUDITED)<br>MARCH 31, 2014 |                   |                           | DECEMBER 31, 2013   |                   |                           | DECEMBER 31, 2012   |                   |                           |
|-------------------------------|-------------------------------|-------------------|---------------------------|---------------------|-------------------|---------------------------|---------------------|-------------------|---------------------------|
|                               | Remaining                     | Consolidated      |                           | Remaining           | Consolidated      |                           | Remaining           | Consolidated      |                           |
|                               | Deposits<br>at Risk           | Purchase<br>Price | Inventory<br>Held by VIEs | Deposits at<br>Risk | Purchase<br>Price | Inventory<br>Held by VIEs | Deposits at<br>Risk | Purchase<br>Price | Inventory<br>Held by VIEs |
| Consolidated VIEs             | \$ 10,192                     | \$ 38,184         | \$ 44,162                 | \$ 6,979            | \$ 34,724         | \$ 39,680                 | \$ 7,514            | \$ 71,686         | \$ 47,157                 |
| Unconsolidated VIEs           | 4,596                         | 52,646            | N/A                       | 7,102               | 75,171            | N/A                       | 5,728               | 47,640            | N/A                       |
| Other land option agreements: |                               |                   |                           |                     |                   |                           |                     |                   |                           |
| Coyote Springs Property       | 1,019                         | 105,211           | N/A                       | 1,019               | 105,211           | N/A                       | 4,019               | 105,211           | N/A                       |
| Other                         | 25,324                        | 188,432           | N/A                       | 29,858              | 216,029           | N/A                       | 21,397              | 161,709           | N/A                       |
| Total                         | <u>\$ 41,131</u>              | <u>\$ 384,473</u> | <u>\$ 44,162</u>          | <u>\$ 44,958</u>    | <u>\$ 431,135</u> | <u>\$ 39,680</u>          | <u>\$ 38,658</u>    | <u>\$ 386,246</u> | <u>\$ 47,157</u>          |

In addition to the deposits at risk included above, we had capitalized pre-acquisition costs of \$5.8 million (unaudited) as of March 31, 2014, \$4.8 million as of December 31, 2013 and \$3.0 million as of December 31, 2012. The capitalized costs are included in prepaid expenses and other assets in our consolidated balance sheet.

## NOTE 9: OPERATING PROPERTIES AND EQUIPMENT

Operating properties and equipment include regional office buildings and leasehold improvements, office equipment, model home furnishings and capitalized hardware and software costs. Depreciation is calculated using a straight-line method at rates based on estimated service lives. Maintenance and repairs are expensed as incurred.

## Table of Contents

The carrying value of operating properties and equipment as of March 31, 2014 and December 31, 2013 and 2012 and their estimated service lives were as follows:

### DOLLAR AMOUNTS IN THOUSANDS

|  | RANGE OF<br>LIVES | (UNAUDITED)<br>MARCH 31,<br>2014 | DECEMBER 31,<br>2013 | DECEMBER 31,<br>2012 |
|--|-------------------|----------------------------------|----------------------|----------------------|
| Operating property and equipment, at cost: |                   |                                  |                      |                      |
| Land                                       | N/A               | \$ 1,999                         | \$ 1,999             | \$ 1,937             |
| Buildings and leasehold improvements       | 2–30              | 7,907                            | 12,567               | 9,710                |
| Equipment and model furnishings            | 2–10              | 42,015                           | 43,883               | 39,550               |
| Total cost                                 |                   | 51,921                           | 58,449               | 51,197               |
| Allowance for depreciation                 |                   | (34,616)                         | (41,063)             | (37,680)             |
| Operating property and equipment, net      |                   | <u>\$ 17,305</u>                 | <u>\$ 17,386</u>     | <u>\$ 13,517</u>     |

Depreciation expense on operating property and equipment for the three months ended March 31, 2014 and 2013 was:

- \$1.9 million (unaudited) in 2014 and
- \$1.6 million (unaudited) in 2013.

Depreciation expense on operating property and equipment for the years ended December 31, 2013, 2012 and 2011 was:

- \$7.2 million in 2013,
- \$7.3 million in 2012 and
- \$7.5 million in 2011.

### NOTE 10: INTANGIBLE ASSETS

We recorded intangible assets at estimated fair value, based upon appraisals obtained in conjunction with the acquisition of Maracay in 2006. Our intangible assets as of March 31, 2014 and December 31, 2013 and 2012 were:

### DOLLAR AMOUNTS IN THOUSANDS

|            | Estimated<br>Useful<br>Lives<br>(in years) | (UNAUDITED)<br>MARCH 31, 2014 |                    |                 | DECEMBER 31, 2013 |                    |                 | DECEMBER 31, 2012 |                    |                 |
|------------|--|-------------------------------|--------------------|-----------------|-------------------|--------------------|-----------------|-------------------|--------------------|-----------------|
|            |  | Gross<br>Carrying             | Accumulated        | Net<br>Carrying | Gross<br>Carrying | Accumulated        | Net<br>Carrying | Gross<br>Carrying | Accumulated        | Net<br>Carrying |
|            |  | Amount                        | Amortization       | Amount          | Amount            | Amortization       | Amount          | Amount            | Amortization       | Amount          |
| Trade name | 20   | \$10,679                      | \$ (4,319)         | \$ 6,360        | \$10,679          | \$ (4,185)         | \$ 6,494        | \$10,679          | \$ (3,651)         | \$ 7,028        |
| Trademark  | 5  | \$10,679                      | (10,679)           | —               | 10,679            | (10,679)           | —               | 10,679            | (10,679)           | —               |
| Total      |  | <u>\$21,358</u>               | <u>\$ (14,998)</u> | <u>\$ 6,360</u> | <u>\$21,358</u>   | <u>\$ (14,864)</u> | <u>\$ 6,494</u> | <u>\$21,358</u>   | <u>\$ (14,330)</u> | <u>\$ 7,028</u> |

Our intangible assets are amortized using a straight-line method over their estimated useful lives. The trademark was fully amortized during 2011.

Amortization of our definite-lived intangible assets for the three months ended March 31, 2014 and 2013 was:

- \$0.1 million (unaudited) in 2014 and
- \$0.1 million (unaudited) in 2013.

## Table of Contents

Amortization of our definite-lived intangible assets for the years ended December 31, 2013, 2012 and 2011 was:

- \$0.5 million in 2013,
- \$0.5 million in 2012 and
- \$0.9 million in 2011.

Our expected amortization for intangible assets for the next five years and thereafter is:

| <u>DOLLAR AMOUNTS IN THOUSANDS</u> | (UNAUDITED)<br>AS OF<br><u>MARCH 31, 2014</u> |
|------------------------------------|---|
| Remainder of 2014                  | \$ 400  |
| 2015                               | \$ 534  |
| 2016                               | \$ 534  |
| 2017                               | \$ 534  |
| 2018                               | \$ 534  |
| Thereafter                         | \$ 3,824                                      |

We review our intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

### **NOTE 11: RELATIONSHIP AND TRANSACTIONS WITH WEYERHAEUSER**

As a wholly owned subsidiary of Weyerhaeuser, we have a number of general arrangements with Weyerhaeuser to facilitate our operations including, among others, a tax sharing agreement. We also have intercompany borrowing and lending arrangements.

#### ***CASH MANAGEMENT AND DEBT PAYABLE TO WEYERHAEUSER***

Weyerhaeuser manages our cash balances. As part of their cash management strategies, Weyerhaeuser may choose to fund our cash needs through affiliated entities in lieu of utilizing existing third-party borrowing capacity or arranging for new borrowings, such as a credit facility, on our behalf. We have a revolving promissory note payable to Weyerhaeuser as a result of this activity. The total amounts outstanding of \$868.8 million (unaudited) as of March 31, 2014, \$834.6 million as of December 31, 2013 and \$689.6 million as of December 31, 2012 were recorded in debt payable to Weyerhaeuser in our consolidated balance sheet.

We paid Weyerhaeuser interest on the unpaid balance of the principal amount at rates per annum for the three months ended March 31, 2014 and 2013 of:

- LIBOR plus 1.70% in 2014 (1.86%) (unaudited) and
- LIBOR plus 1.70% in 2013 (1.90%) (unaudited).

We paid Weyerhaeuser interest on the unpaid balance of the principal amount at rates per annum for the year ended December 31, 2013, 2012 and 2011 of:

- LIBOR plus 1.70% in 2013 (1.87%),
- LIBOR plus 1.70% in 2012 (1.92%) and
- LIBOR plus 0.35% in 2011 (0.62%)

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## Table of Contents

Interest incurred on the intercompany borrowings for the three months ended March 31, 2014 and 2013 was:

- \$3.9 million (unaudited) in 2014 and
- \$3.4 million (unaudited) in 2013.

Interest incurred on the intercompany borrowings for the year ended December 31, 2013, 2012 and 2011 was:

- \$15.7 million in 2013,
- \$12.8 million in 2012 and
- \$3.4 million in 2011.

The interest rate and terms of the revolving promissory note are reviewed annually. The promissory note outstanding during 2011 expired on December 31, 2011, and was replaced with the current promissory note that was scheduled to expire on December 31, 2013. On November 15, 2013, the promissory note payable to Weyerhaeuser was extended to the earlier of December 31, 2014 or the closing of the TRI Pointe Transaction. See *Note 23: Transaction Agreement with Tri Pointe Homes, Inc.* for more information.

### **SUPPORT SERVICES**

Weyerhaeuser processes our payroll and related employee benefits, and provides us with other corporate services such as corporate governance, cash management and other treasury services, administrative services (such as government relations, tax, internal audit, legal, accounting, human resources and equity-based compensation plan administration), lease of office space, aviation services and insurance coverage. We are allocated a portion of Weyerhaeuser corporate general and administrative costs on either a proportional cost basis or based on usage. Management believes the assumptions and methodologies underlying the allocation of corporate general and administrative expenses are reasonable and consistently applied over the periods presented. However, these expenses may not be indicative of the actual level of expense we would have incurred if we had operated as an independent company or of expenses expected to be incurred in the future.

Costs paid to Weyerhaeuser for allocated corporate general and administrative expenses for the three months ended March 31, 2014 and 2013 were:

- \$5.5 million (unaudited) in 2014 and
- \$5.5 million (unaudited) in 2013.

Costs paid to Weyerhaeuser for allocated corporate general and administrative expenses for the year ended December 31, 2013, 2012 and 2011 were:

- \$22.9 million in 2013,
- \$20.5 million in 2012 and
- \$17.3 million in 2011.

Both the direct and allocated costs are reported in our consolidated statement of operations and, as appropriate, are accrued in our consolidated balance sheet.

### **TAX ALLOCATION AGREEMENT**

We are included in the Weyerhaeuser NR Company consolidated federal income tax return and certain state income tax filings. *Note 22: Income Taxes* provides more information about our income taxes and relationship with Weyerhaeuser.

## Table of Contents

Our income taxes paid to (received from) Weyerhaeuser NR Company for the three months ended March 31, 2014 and 2013 was:

- \$0.0 million (unaudited) in 2014 and
- \$1.3 million (unaudited) in 2013.

Our income taxes paid to (received from) Weyerhaeuser NR Company for the years ended December 31, 2013, 2012 and 2011 was:

- \$(10.5) million in 2013,
- \$(20.7) million in 2012 and
- \$13.3 million in 2011.

### ***PARTICIPATION IN WEYERHAEUSER EMPLOYEE BENEFIT ARRANGEMENTS***

We participate in Weyerhaeuser's qualified pension, defined contribution and deferred compensation plans, as well as share-based compensation plans for employees and key executive officers. *Note 14: Weyerhaeuser Employee Benefit Plans* and *Note 15: Weyerhaeuser Share-Based Compensation* describe our participation in these plans.

### ***RELATED PARTY BALANCES ON OUR CONSOLIDATED BALANCE SHEETS***

Our balances with Weyerhaeuser related to our continuing operations were:

#### DOLLAR AMOUNTS IN THOUSANDS

|   | (UNAUDITED)<br>MARCH 31, 2014 | DECEMBER 31,<br>2013 | DECEMBER 31,<br>2012 |
|---|-------------------------------|----------------------|----------------------|
| <b>Assets:</b>                          |                               |                      |                      |
| Income tax receivable from Weyerhaeuser | \$ —                          | \$ —                 | \$ 14                |
| <b>Liabilities:</b>                     |                               |                      |                      |
| Accounts payable to Weyerhaeuser        | \$ 33,180                     | \$ 18,921            | \$ 18,661            |
| Income tax payable to Weyerhaeuser      | \$ 19,625                     | \$ 16,577            | \$ —                 |
| Debt payable to Weyerhaeuser            | \$ 868,809                    | \$ 834,589           | \$ 689,553           |

### **NOTE 12: DEBT AND REVOLVING LINES OF CREDIT**

This note provides details about our:

- Debt payable to third parties and the portion due within one year and
- Lines of credit

### ***DEBT PAYABLE TO THIRD PARTIES***

Our debt payable to third parties included notes, bonds and other borrowings payable to unrelated parties. As of December 31, 2013, all outstanding debt payable to third parties had been repaid. No additional debt payable to third parties was incurred in 2014. Also see *Note 11: Relationship and Transactions with Weyerhaeuser* for information regarding debt payable to Weyerhaeuser.

## Table of Contents

The following table lists our debt payable to third parties by type and interest rates as of the end of December 31, 2012 and identifies the portion of debt due within one year as of that date:

|  | DECEMBER 31,<br>2012 |
|--|----------------------|
| Medium-term notes due 2013, weighted average rate of 6.14% at December 31, 2012      | \$ 69,000            |
| Medium-term notes due 2012-2014, weighted average rate of 6.22% at December 31, 2012 | 15,000               |
| Bond due 2027, variable rate of 0.25% at December 31, 2012                           | 25,255               |
| Total  | <u>\$ 109,255</u>    |
| Portion due within one year  | <u>\$ 69,000</u>     |

In October 2013, we notified the trustee that we intended to prepay the \$25.3 million in outstanding bonds and that payment occurred on November 15, 2013. In addition, we elected to repay the \$15.0 million medium-term notes due in 2014 and the payment occurred on December 10, 2013. We incurred a loss on early repayment of approximately \$0.6 million which was recorded in the fourth quarter of 2013. The \$69.0 million medium-term notes were due and paid on December 16, 2013.

### LINES OF CREDIT

In June 2011, we entered into a \$1.0 billion 4-year Revolving Credit Facility Agreement jointly with Weyerhaeuser, which was set to expire in June 2015. During September 2013, we entered into a new \$1.0 billion 5-year senior unsecured revolving credit facility jointly with Weyerhaeuser that expires in September 2018. This replaces the \$1.0 billion revolving credit facility that was set to expire in June 2015. We may borrow up to \$50.0 million under this credit facility. Neither we nor Weyerhaeuser guarantees the other's borrowings under this facility. Borrowings are at LIBOR plus a spread or at other interest rates mutually agreed upon between the borrower and the lending banks. We did not have any borrowings outstanding under these credit lines as of March 31, 2014, December 31, 2013 or December 31, 2012. As of March 31, 2014 we were in compliance with the credit facility covenants. Upon closing of the TRI Pointe Transaction, our participation in the Revolving Credit Facility Agreement will expire. See *Note 23: Transaction Agreement with TRI Pointe Homes, Inc.* for additional information.

### NOTE 13: FAIR VALUE OF FINANCIAL INSTRUMENTS

This note provides information about the fair value of our:

- debt payable to third parties and
- other financial instruments.

The estimated fair values and carrying values of our receivables and debt as of March 31, 2014 and December 31, 2013 and 2012 were as follows:

DOLLAR AMOUNTS IN THOUSANDS

|                               | (UNAUDITED)<br>MARCH 31, 2014 |            | DECEMBER 31, 2013 |            | DECEMBER 31, 2012 |            |
|-------------------------------|-------------------------------|------------|-------------------|------------|-------------------|------------|
|                               | CARRYING                      | FAIR VALUE | CARRYING          | FAIR VALUE | CARRYING          | FAIR VALUE |
|                               | VALUE                         | (LEVEL 2)  | VALUE             | (LEVEL 2)  | VALUE             | (LEVEL 2)  |
| Receivables                   | \$ 35,425                     | \$ 35,120  | \$ 60,397         | \$ 60,390  | \$ 72,053         | \$ 71,923  |
| Debt payable to third parties | \$ —                          | \$ —       | \$ —              | \$ —       | \$ 109,255        | \$ 111,650 |

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## Table of Contents

The fair value of our notes and contracts receivable is based on the discounted value of the expected future cash flows using current rates for similar receivables.

The fair value estimates for notes and contracts receivable and debt represent Level 2 valuations under the fair value hierarchy, as the inputs to these valuations are based on market data obtained from independent sources or information derived principally from observable market data.

To estimate the fair value of debt, we used the following valuation approaches:

- market approach—based on quoted market prices we received for the same types and issues of our debt; or
- income approach—based on the discounted value of the future cash flows using market yields for the same type and comparable issues of debt.

The inputs to these valuations are based on market data obtained from independent sources or information derived principally from observable market data. The difference between the fair value and the carrying value represents the theoretical net premium or discount we would pay or receive to retire all debt at the measurement date. Changes in market rates of interest affect the fair value of our fixed rate debt.

We believe that the carrying values of our cash, accounts receivable, deposits, accounts payable and accrued liabilities approximate fair value due to their short-term nature and liquidity, and our management has the ability to cancel our deposits on real estate under option or contract at any time.

More details about our debt are in *Note 12: Debt and Revolving Lines of Credit*.

### **NOTE 14: WEYERHAEUSER EMPLOYEE BENEFIT PLANS**

We participate in several employee benefit arrangements sponsored by Weyerhaeuser.

This note provides details about our participation in Weyerhaeuser's:

- qualified pension plan,
- nonqualified pension plan,
- postretirement benefit plan,
- defined contribution plan and
- deferred compensation plan.

#### ***WEYERHAEUSER QUALIFIED PENSION PLAN***

The Weyerhaeuser Pension Plan is a qualified pension plan under the Internal Revenue Code. Salaried employees receive benefits based on each employee's highest monthly earnings over five consecutive years during the final ten years of employment.

During the fourth quarter 2013, Weyerhaeuser ratified an amendment to the Weyerhaeuser Pension Plan that closes the plan to newly hired and rehired employees effective January 1, 2014. The change was announced in December 2013.

We have not recorded any liabilities associated with this plan; nor do we directly contribute to the plan. Weyerhaeuser is the plan sponsor and maintains both the plan and the related obligations. Our consolidated

## Table of Contents

statement of operations includes allocated pension service cost and settlement or curtailment components of Weyerhaeuser's net periodic pension cost that are directly related to our employees. We reimburse Weyerhaeuser for these allocated costs on a monthly basis.

Our participation in the Weyerhaeuser qualified pension plan resulted in the following allocated charges:

### DOLLAR AMOUNTS IN THOUSANDS

|                                | (UNAUDITED)        |               | YEAR ENDED      |                 |                 |
|--------------------------------|--------------------|---------------|-----------------|-----------------|-----------------|
|                                | THREE MONTHS ENDED |               | DECEMBER 31,    | DECEMBER 31,    | DECEMBER 31,    |
|                                | MARCH 31,          | MARCH 31,     | DECEMBER 31,    | DECEMBER 31,    | DECEMBER 31,    |
|                                | 2014               | 2013          | 2013            | 2012            | 2011            |
| Allocated pension charges:     |                    |               |                 |                 |                 |
| Qualified pension service cost | \$ 734             | \$ 925        | \$ 3,758        | \$ 3,264        | \$ 2,891        |
| Qualified pension curtailment  | —                  | —             | —               | —               | 264             |
| Total                          | <u>\$ 734</u>      | <u>\$ 925</u> | <u>\$ 3,758</u> | <u>\$ 3,264</u> | <u>\$ 3,155</u> |

The funded status of the Weyerhaeuser Pension Plan, EIN Pension Plan Number 91-0470860, is at least 80% based on the accumulated benefit obligation and the total plan assets as of December 31, 2013, 2012 and 2011. We have not made, and are not required to make, any contributions to the plan and have not had a surcharge imposed. No contributions were required for any of the periods presented above.

### **WEYERHAEUSER NONQUALIFIED PENSION PLAN**

Weyerhaeuser's nonqualified pension plan provides additional pension benefits to a select group of employees based upon compensation levels, but is not a qualified plan under the Internal Revenue Code. Weyerhaeuser does not allocate costs of the nonqualified plan to us.

### **WEYERHAEUSER POSTRETIREMENT BENEFIT PLAN**

Weyerhaeuser's postretirement benefit plan provides health care and life insurance benefits for certain retired employees. Eligibility for and our contribution toward these benefits depends on whether employees met retirement eligibility as of December 31, 2009. Further, effective July 1, 2012, salaried employees who were not eligible for retirement or who qualified but continued working past June 30, 2012, no longer have access to postretirement benefits. For the postretirement benefit plan, we are only charged for our portion of plan settlements and curtailments. Weyerhaeuser did not have any postretirement plan settlements or curtailment charges for any of the periods presented above.

### **WEYERHAEUSER DEFINED CONTRIBUTION PLAN**

Weyerhaeuser's defined contribution plan is a tax-qualified employee savings, retirement and profit sharing plan qualified under Section 401(k) of the Internal Revenue Code (the "401(k) Plan"). Under the 401(k) Plan, eligible employees may elect to defer a portion of their current compensation, up to certain statutorily prescribed annual limits, and make corresponding periodic contributions into the 401(k) Plan. We provide a match of a certain percentage of the employee's overall contribution.

We recognized the following defined contribution expense for the three months ended March 31, 2014 and 2013:

- \$0.4 million (unaudited) in 2014 and
- \$0.4 million (unaudited) in 2013.

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## Table of Contents

We recognized the following defined contribution expense for the years ended December 31, 2013, 2012 and 2011:

- \$1.5 million in 2013,
- \$1.3 million in 2012 and
- \$1.3 million in 2011.

### ***WEYERHAEUSER DEFERRED COMPENSATION PLAN***

Certain employees are eligible to participate by either direct deferrals into the Weyerhaeuser Deferred Compensation Plan or through mandatory deferrals under the WRECO Management Short-Term Incentive Plan. Mandatory deferrals have a minimum deferral period for two years. Certain eligible employees may defer into stock equivalent units or interest bearing accounts. Stock equivalent units are liability-classified awards that are re-measured to fair value at each reporting date. We settle all deferred compensation accounts in cash.

Our accrued liability for deferred compensation was:

- \$25.1 million (unaudited) as of March 31, 2014,
- \$27.6 million as of December 31, 2013,
- \$27.9 million as of December 31, 2012, and
- \$28.4 million as of December 31, 2011.

The accrued liability for deferred compensation is included in accrued payroll liabilities on our consolidated balance sheet.

### **NOTE 15: WEYERHAEUSER SHARE-BASED COMPENSATION**

Weyerhaeuser has certain share-based compensation plans for employees and key executive officers. Under these plans, Weyerhaeuser Company grants stock options, restricted stock units, and performance share units. Stock options entitle award recipients to purchase shares of Weyerhaeuser Company's common stock at a fixed exercise price. Restricted stock units and performance share units entitle the holder to shares of Weyerhaeuser Company stock as the award vests and, in the case of performance awards, as performance conditions are met.

Our share-based compensation expense for the three months ended March 31, 2014 and 2013 was:

- \$1.3 million (unaudited) in 2014 and
- \$1.1 million (unaudited) in 2013.

Our share-based compensation expense for the years ended December 31, 2013, 2012 and 2011 was:

- \$5.0 million in 2013
- \$3.9 million in 2012 and
- \$3.0 million in 2011.

As of March 31, 2014, our unrecognized share-based compensation cost was \$13.5 million (unaudited) related to nonvested equity-classified share-based compensation arrangements, which is expected to be recognized over a weighted-average period of approximately 2.8 years.

Our total income tax benefit from share-based awards for the three months ended March 31, 2014 and 2013 was:

- \$0.5 million (unaudited) in 2014 and
- \$0.4 million (unaudited) in 2013.

## Table of Contents

Our total income tax benefit from share-based awards for the years ended December 31, 2013, 2012 and 2011 was:

- \$1.8 million in 2013,
- \$1.4 million in 2012 and
- \$1.1 million in 2011.

Tax benefits for share-based awards are accrued as stock compensation expense is recognized. Tax benefits on share-based awards are realized when:

- restricted stock units vest,
- performance share units vest and
- stock options are exercised.

When actual tax benefits realized exceed the tax benefits accrued for share-based awards, we realize an excess tax benefit. We report the excess tax benefit of share-based awards as financing cash inflows rather than operating cash inflows in our consolidated statement of cash flows. Our excess tax benefits for the three months ended March 31, 2014 and 2013 was:

- \$0.5 million (unaudited) in 2014
- \$0.0 million (unaudited) in 2013

Our excess tax benefits for the years ended December 31, 2013, 2012 and 2011 was:

- \$2.1 million in 2013,
- \$1.2 million in 2012 and
- \$0.8 million in 2011.

### **WEYERHAEUSER STOCK OPTIONS**

Stock option awards are granted with an exercise price equal to the market price of Weyerhaeuser Company's stock at the date of grant. Stock option awards generally vest ratably over four years of continuous service and have a 10-year contractual term. For awards granted in 2014, 2013, 2012 and 2011, awards will generally vest upon retirement for employees who retire at age 62 or older, but stop vesting for other voluntary terminations, including early retirement prior to age 62. The share-based compensation expense for individuals meeting the retirement eligibility requirements is recognized over a required service period that is less than the stated four-year vesting period.

We estimate the fair value of each stock option award on the date of grant using a Black-Scholes option valuation model.

The weighted average assumptions we used in estimating the value of stock options granted during the three months ended March 31, 2014, and the year ended December 31, 2013, 2012, and 2011 were as follows:

|  | (UNAUDITED)<br>2014 GRANTS | 2013<br>GRANTS | 2012<br>GRANTS | 2011<br>GRANTS |
|--|----------------------------|----------------|----------------|----------------|
| Expected volatility                    | 31.71%                     | 38.00%         | 40.41%         | 38.56%         |
| Expected dividends                     | 2.92%                      | 2.23%          | 2.94%          | 2.48%          |
| Expected term (in years)               | 4.97                       | 4.97           | 5.33           | 5.73           |
| Risk-free rate                         | 1.57%                      | 0.92%          | 1.01%          | 2.65%          |
| Weighted average grant date fair value | \$ 6.62                    | \$ 8.40        | \$ 5.72        | \$ 7.54        |

## Table of Contents

The expected volatility of Weyerhaeuser Company's stock was based on historical volatilities and implied volatility from traded options on Weyerhaeuser Company's stock. The expected term of the options was based on a Monte-Carlo simulation which considers optionee termination and exercise behaviors. The risk-free interest rate was based on the U.S. Treasury yield curve at the time of grant over a period matching the expected term of the option.

The following table shows our stock option unit activity for the year ended December 31, 2013 and the three months ended March 31, 2014:

|   | OPTIONS<br>(IN THOUSANDS) | WEIGHTED<br>AVERAGE<br>EXERCISE<br>PRICE | WEIGHTED<br>AVERAGE<br>REMAINING<br>CONTRACTUAL<br>TERM<br>(IN YEARS) | AGGREGATE<br>INTRINSIC<br>VALUE<br>(IN THOUSANDS) |
|---|---------------------------|--|---|---|
| Outstanding at December 31, 2012          | 2,645                     | \$ 22.73                                 | 5.46  | \$ 10,989   |
| Granted                                   | 329                       | \$ 30.54                                 |   |   |
| Exercised                                 | (632)                     | \$ 21.64                                 |   |   |
| Forfeited or expired                      | (81)                      | \$ 26.11                                 |   |   |
| Outstanding at December 31, 2013          | <u>2,261</u>              | \$ 24.05                                 | 5.33  | \$ 17,004   |
| Granted (unaudited)                       | 380                       | \$ 30.16                                 |   |   |
| Exercised (unaudited)                     | (122)                     | \$ 21.36                                 |   |   |
| Forfeited or expired (unaudited)          | (17)                      | \$ 24.80                                 |   |   |
| Outstanding at March 31, 2014 (unaudited) | <u>2,502</u>              | \$ 25.11                                 | 5.92  | \$ 11,730   |
| Exercisable at March 31, 2014 (unaudited) | <u>1,694</u>              | \$ 23.70                                 | 4.45  | \$ 10,104   |

### WEYERHAEUSER RESTRICTED STOCK UNITS

Restricted stock unit awards are granted with a fair value equal to the market price of Weyerhaeuser Company's stock at the date of grant. Restricted stock unit awards generally vest ratably over four years of continuous service. Award provisions require an accelerated vesting schedule in the event of retirement eligibility or involuntary termination. As restricted stock units vest, a portion of the shares awarded is withheld to cover employee taxes. As a result, the number of restricted stock units vested and the number of Weyerhaeuser common shares issued will differ.

The following table shows our restricted stock unit activity for the year ended December 31, 2013 and the three months ended March 31, 2014:

|  | STOCK UNITS<br>(IN THOUSANDS) | WEIGHTED<br>AVERAGE<br>GRANT-<br>DATE<br>FAIR VALUE |
|--|-------------------------------|---|
| Nonvested at December 31, 2012             | 206                           | \$ 22.05  |
| Granted                                    | 112                           | \$ 30.55  |
| Vested                                     | (63)                          | \$ 22.28  |
| Forfeited                                  | (8)                           | \$ 26.06  |
| Nonvested at December 31, 2013             | <u>247</u>                    | \$ 25.70  |
| Granted (unaudited)                        | 126                           | \$ 30.16  |
| Vested (unaudited)                         | (87)                          | \$ 25.01  |
| Forfeited (Unaudited)                      | (4)                           | \$ 25.70  |
| Nonvested as of March 31, 2014 (unaudited) | <u>282</u>                    | \$ 27.91  |

## Table of Contents

Nonvested restricted stock units accrue dividends that are paid out by Weyerhaeuser when restricted stock units vest. Any restricted stock units forfeited will not receive dividends.

### WEYERHAEUSER PERFORMANCE SHARE UNITS

As part of our long-term incentive compensation strategy intended to tie executive compensation more closely to company performance, we granted a target number of performance share units to select executives in 2014. These share-based awards will be paid in the form of shares of Weyerhaeuser Company stock—to the extent earned through Weyerhaeuser Company performance against financial goals—over a four-year vesting period. Performance share unit awards generally vest 50 percent, 25 percent and 25 percent on the second, third and fourth anniversaries of the grant date, respectively, as long as the participant remains employed by the company. Awards are forfeited upon termination of employment, except in the event of involuntary termination or retirement where award provisions require an accelerated vesting schedule based on the length of employment after grant date. As performance share units vest, a portion of the shares awarded will be withheld to cover employee taxes. As a result, the number of performance share units vested and the number of Weyerhaeuser common shares issued will differ.

The weighted average assumptions we used in estimating the value of performance share units granted during the three months ended March 31, 2014, and the years ended December 31, 2013, 2012 and 2011 were as follows:

|                                    | (UNAUDITED)<br>2014 GRANTS | 2013 GRANTS           | 2012 GRANTS           | 2011 GRANTS           |
|------------------------------------|----------------------------|-----------------------|-----------------------|-----------------------|
| Performance period                 | 1/1/2014 – 12/31/2015      | 1/1/2013 – 12/31/2014 | 1/1/2012 – 12/31/2013 | 1/1/2011 – 12/31/2012 |
| Valuation date closing stock price | \$30.16                    | \$30.48               | \$20.56               | \$24.32               |
| Expected dividends                 | 2.91%                      | 2.23%                 | 2.92 %                | 0.82 %                |
| Risk-free rate                     | 0.03% – 0.79%              | 0.09% – 0.46%         | 0.08% – 0.32 %        | 0.12% – 0.80 %        |
| Volatility                         | 20.74% – 23.53%            | 22.09% – 29.57%       | 34.86% – 34.66 %      | 28.65% – 35.74 %      |

The following table shows our performance share unit activity for the year ended December 31, 2013 and the three months ended March 31, 2014:

|   | GRANTS (IN THOUSANDS) |           |          |          |           | WEIGHTED<br>AVERAGE<br>GRANT-DATE<br>FAIR VALUE |
|---|-----------------------|-----------|----------|----------|-----------|---|
|   | 2014                  | 2013      | 2012     | 2011     | TOTAL     |   |
| Nonvested at December 31, 2012          | —                     | —         | 14       | 14       | 28        | \$ 24.38  |
| Granted at target                       | —                     | 12        | —        | —        | 12        | \$ 31.59  |
| Vested                                  | —                     | —         | —        | (7)      | (7)       | \$ 27.30  |
| Performance adjustment                  | —                     | 6         | 3        | —        | 9         | \$ 28.70  |
| Nonvested at December 31, 2013          | —                     | 18        | 17       | 7        | 42        | \$ 26.86  |
| Granted at target (unaudited)           | 22                    | —         | —        | —        | 22        | \$ 30.62  |
| Vested at target (unaudited)            | —                     | —         | (9)      | (3)      | (12)      | \$ 23.32  |
| Nonvested at March 31, 2014 (unaudited) | <u>22</u>             | <u>18</u> | <u>8</u> | <u>4</u> | <u>52</u> | \$ 29.27  |

For 2014, 2013, 2012 and 2011 grants, the number of shares earned is based on financial metrics related to Weyerhaeuser Company cash flows and total shareholder return (TSR).

For 2013 grants, Weyerhaeuser exceeded the cash flow target, resulting in an initial number of shares earned equal to 150 percent of target. The ultimate number of performance shares earned may be adjusted when the Weyerhaeuser TSR performance period is completed. The Weyerhaeuser TSR component could modify the initial number of shares earned up or down by 20 percent.

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## Table of Contents

For 2012 grants, Weyerhaeuser exceeded the cash flow target, resulting in an initial number of shares earned equal to 122 percent of target. Because Weyerhaeuser's two-year TSR ranking was between the 50<sup>th</sup> and 75<sup>th</sup> percentile, the initial number of shares granted increased by 17 percent.

For 2011 grants, Weyerhaeuser exceeded the cash flow target, resulting in an initial number of shares earned equal to 105 percent of target. Because Weyerhaeuser's two-year TSR ranking was greater than the 75<sup>th</sup> percentile, the initial number of shares granted increased by 20 percent.

### NOTE 16: COMMITMENTS AND CONTINGENT LIABILITIES

#### *LEGAL PROCEEDINGS*

We are party to various legal proceedings arising in the ordinary course of business; however, we are not currently a party to any legal proceeding that management believes could have a material adverse effect on our long-term consolidated financial position, results of operations or cash flows.

We, and one of our subsidiaries, along with its joint venture members and their respective parent companies, were defendants in lawsuits litigated in Nevada. The plaintiffs (lender groups and one joint venture member) sought damages on the basis of enforcement of guaranties and other related claims regarding South Edge, LLC (South Edge), a large Nevada-based land acquisition and residential development venture. South Edge was put into involuntary bankruptcy by the lenders in February 2011. In October 2011, a plan of reorganization for South Edge was confirmed by the bankruptcy court. The confirmed plan of reorganization provided for the formation of a new joint venture, Inspirada Builders, LLC (Inspirada), a cash settlement to the lenders and the developer, acquisition of land by Inspirada, and settlement of all claims against us and other settling members of the joint ventures by the plaintiffs. As of December 31, 2013, Inspirada continued to hold title to the land, which was expected to be distributed to the individual members. We also recorded an investment in Inspirada based on the estimated fair value of the land we expected to receive. We recognized increases to earnings of \$0.9 million in the year ended December 31, 2013, \$2.1 million in the year ended December 31, 2012 and \$6.5 million in the year ended December 31, 2011 as a result of reversing previous accruals for this matter and recognizing the value of land expected to be received from the settlement, which are reflected as a reduction of costs and expenses for land and lots in the accompanying consolidated statement of operations. During 2011, we made payments of \$32.1 million in settlement of these claims, which had been fully accrued in a prior year.

During the three months ended March 31, 2014, we received a distribution of the land from Inspirada and we recorded a transfer of our investment in Inspirada to real estate under development and for sale. There was no effect on earnings in the three months ended March 31, 2014, as a result of the distribution.

#### *OPERATING LEASES*

We have operating leases for:

- office space, other buildings and equipment;
- model homes; and
- real estate ground leases.

#### *Office Space, Buildings and Equipment*

Our rent expense for office space, buildings and equipment for the three months ended March 31, 2014 and 2013 was:

- \$1.0 million (unaudited) in 2014 and
- \$1.5 million (unaudited) in 2013.

Our rent expense for office space, buildings and equipment for the years ended December 31, 2013, 2012 and 2011 was:

- \$5.1 million in 2013,

## Table of Contents

- \$5.4 million in 2012 and
- \$5.7 million in 2011

Our operating lease commitments for office space and other buildings and equipment for the remainder of 2014, the next five years and thereafter were as follows:

| <u>DOLLAR AMOUNTS IN THOUSANDS</u> | (UNAUDITED)<br>AS OF<br>March 31, 2014 |
|------------------------------------|--|
| Remainder of 2014                  | \$ 5,290                               |
| 2015                               | 5,682                                  |
| 2016                               | 5,613                                  |
| 2017                               | 4,497                                  |
| 2018                               | 2,676                                  |
| Thereafter                         | 10,128                                 |

Our minimum sublease rental income due to us in future periods under noncancellable sublease arrangements for office space and other buildings and equipment for the remainder of 2014, the next five years and thereafter were as follows:

| <u>DOLLAR AMOUNTS IN THOUSANDS</u> | (UNAUDITED)<br>AS OF<br>March 31, 2014 |
|------------------------------------|--|
| Remainder of 2014                  | \$ 528                                 |
| 2015                               | 529                                    |
| 2016                               | 602                                    |
| 2017                               | 471                                    |
| 2018                               | 0                                      |
| Thereafter                         | —                                      |

### ***Model Homes***

As part of our model home activities, we sell selected model homes to third parties at fair value and lease them back at market lease payments for periods approximating six months to three years.

Our rent expense for model homes for the three months ended March 31, 2014 and 2013 was:

- \$0.2 million (unaudited) in 2014 and
- \$0.2 million (unaudited) in 2013.

Our rent expense for model homes for the years ended December 31, 2013, 2012 and 2011 was:

- \$0.7 million in 2013,
- \$0.9 million in 2012 and
- \$2.1 million in 2011.

As of March 31, 2014, our only model home lease commitments were \$292,000 (unaudited) payable in 2014.

### ***Ground Leases***

In 1987, we obtained two 55-year ground leases of commercial property that provided for three renewal options of ten years each and one 45-year renewal option. We exercised the three 10-year extensions on one of these ground leases extending the lease through 2071. The commercial buildings on these properties have been sold and the ground leases have been sublet to the buyers.

## Table of Contents

For one of these leases, we are responsible for making lease payments to the land owner, and we collect sublease payments from the buyers of the buildings. Our lease commitments under this ground lease, which extends through 2071, were:

| <u>DOLLAR AMOUNTS IN THOUSANDS</u> |  |
|------------------------------------|--|
|                                    | (UNAUDITED)<br>AS OF<br>March 31, 2014 |
| Remainder of 2014                  | \$ 1,668                               |
| 2015                               | 2,224                                  |
| 2016                               | 2,224                                  |
| 2017                               | 2,224                                  |
| 2018                               | 2,224                                  |
| Thereafter                         | 81,374                                 |

This ground lease has been subleased through 2041 to the buyers of the commercial buildings. Our lease commitments through 2041 total \$61.7 million as of March 31, 2014, and are fully offset by sublease receipts under the noncancellable subleases.

For the second lease, the buyers of the buildings are responsible for making lease payments directly to the land owner. However, we have guaranteed the performance of the buyers/lessees. As of March 31, 2014, guaranteed future payments on the lease, which expires in 2041, were \$11.7 million (unaudited).

### **LETTERS OF CREDIT AND SURETY BONDS**

Our contingent liabilities are customary for a contractor to satisfactorily complete construction projects. In the normal course of business, we provide standby letters of credit and performance bonds as security that we will fulfill our contractual obligations. The amounts of letters of credit and surety bonds we had entered into as of March 31, 2014 and December 31, 2013 and 2012 were:

|                   | (UNAUDITED)<br>MARCH 31,<br>2014 | DECEMBER 31,<br>2013 | DECEMBER 31,<br>2012 |
|-------------------|----------------------------------|----------------------|----------------------|
| Letters of credit | \$ 3,816                         | \$ 4,316             | \$ 4,165             |
| Surety bonds      | \$ 299,101                       | \$ 280,550           | \$ 261,484           |

Estimated costs to complete the work covered by the surety bonds as of March 31, 2014 were approximately \$126 million (unaudited).

### **NOTE 17: OTHER ACCRU ED LIABILITIES**

Other accrued liabilities were comprised of the following:

|                               | (UNAUDITED)<br>MARCH 31,<br>2014 | DECEMBER 31,<br>2013 | DECEMBER 31,<br>2012 |
|-------------------------------|----------------------------------|----------------------|----------------------|
| Estimated cost for completion | \$ 37,433                        | \$ 53,160            | \$ 33,567            |
| Warranty reserves             | 24,378                           | 24,449               | 24,485               |
| Customer deposits             | 16,347                           | 13,432               | 7,664                |
| Other                         | 22,020                           | 28,261               | 28,289               |
| Total                         | \$ 100,178                       | \$ 119,302           | \$ 94,005            |

Estimated cost for completion reflects an accrual for future development costs. As discussed in *Note 1: Summary of Significant Accounting Policies—Inventory*, land and lot development costs allocated to inventory and

## Table of Contents

expensed as the sale of inventory closes and delivery occurs includes an allocation of future development costs expected to be incurred over the life of a community. If total costs expensed through cost of sales for a community exceed actual costs incurred to date, an accrual is required and is recorded as estimated cost for completion.

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 other accrued liabilities on our consolidated balance sheet and represents expected future costs based on our historical experience over previous years. Estimated warranty costs are charged to cost and expenses in the period in which the related single-family home sales revenue is recognized. The change in our warranty reserves were:

### DOLLAR AMOUNTS IN THOUSANDS

|                                      | (UNAUDITED)        |                  | YEAR ENDED       |                  |                  |
|--------------------------------------|--------------------|------------------|------------------|------------------|------------------|
|                                      | THREE MONTHS ENDED |                  | DECEMBER 31,     | DECEMBER 31,     | DECEMBER 31,     |
|                                      | MARCH 31,          | MARCH 31,        | 2013             | 2012             | 2011             |
|                                      | 2014               | 2013             |                  |                  |                  |
| Warranty reserves, beginning of year | \$ 24,449          | \$ 24,485        | \$ 24,485        | \$ 26,404        | \$ 25,368        |
| Additions to reserve                 | 4,392              | 3,913            | 8,102            | 5,423            | 5,517            |
| Adjustments to pre-existing reserves | (1,996)            | (1,815)          | 1,933            | 2,650            | 4,478            |
| Payments                             | (2,467)            | (2,435)          | (10,071)         | (9,992)          | (8,959)          |
| Warranty reserves, end of period     | <u>\$ 24,378</u>   | <u>\$ 24,148</u> | <u>\$ 24,449</u> | <u>\$ 24,485</u> | <u>\$ 26,404</u> |

We carry insurance that covers certain warranty expenditures at Pardee. We record expected recoveries from insurance carriers when proceeds are probable and estimable. Outstanding insurance recoveries receivable, a portion of which relates to the warranty liability, were \$11.8 million (unaudited) as of March 31, 2014, \$12.5 million as of December 31, 2013 and \$13.7 million as of December 31, 2012. Warranty receivables can be found in *Note 4: Receivables*.

## NOTE 18: SHAREHOLDERS' INTEREST

This note provides details about our preferred shares and common shares.

### **PREFERRED SHARES**

We had no preferred shares outstanding as March 31, 2014, December 31, 2013 or 2012. However, we have authorization to issue 10 million preferred shares with a par value of \$1.00 per share. We may issue preferred shares at one time or through a series of offerings. The shares may have varying rights that can include:

- the dividend rates,
- redemption rights,
- amount payable upon voluntary or involuntary liquidation,
- sinking fund provisions,
- conversion terms and
- voting rights

When issued, the outstanding preferred shares rank senior to outstanding common shares. That means preferred shares would receive dividends and assets available on liquidation before any payments are made to common shares.

## Table of Contents

### COMMON SHARES

After reflecting the stock split that was effective as of January 17, 2014, we had 100 million common shares issued and outstanding as of March 31, 2014 (unaudited), December 31, 2013 and December 31, 2012 with a par value of \$0.04 per share. No common share dividends have been declared by our Board of Directors during the three months ended March 31, 2014 (unaudited) or the three years ended December 31, 2013.

### CUMULATIVE OTHER COMPREHENSIVE INCOME

We had no cumulative other comprehensive income during the three months ended March 31, 2014 (unaudited) or the three years ended December 31, 2013.

### NOTE 19: REAL ESTATE IMPAIRMENTS AND CHARGES

The following table shows our real estate impairments and charges:

#### DOLLAR AMOUNTS IN THOUSANDS

|   | (UNAUDITED)<br>THREE MONTHS<br>ENDED |                   | YEAR ENDED           |                      |                      |
|---|--------------------------------------|-------------------|----------------------|----------------------|----------------------|
|   | MARCH 31,<br>2014                    | MARCH 31,<br>2013 | DECEMBER 31,<br>2013 | DECEMBER 31,<br>2012 | DECEMBER 31,<br>2011 |
| Impairments of homebuilding assets and related charges: |                                      |                   |                      |                      |                      |
| Impairments, homebuilding inventory                     | \$ 10                                | \$ 295            | \$ 341,086           | \$ 735               | \$ 9,751             |
| Write-off of pre-acquisition costs                      | 458                                  | 198               | 4,362                | 2,856                | 1,268                |
| Total   | <u>\$ 468</u>                        | <u>\$ 493</u>     | <u>\$ 345,448</u>    | <u>\$ 3,591</u>      | <u>\$ 11,019</u>     |

Impairments of homebuilding assets and related charges relate primarily to projects or communities held for development. Within a community that is held for development, there may be individual homes or parcels of land that are currently held for sale. Impairment charges recognized as a result of adjusting individual held-for-sale assets within a community to estimated fair value less cost to sell are also included in the total impairment charges above.

The homebuilding impairment charge in 2013 is primarily related to the impairment of the Coyote Springs Property. Under the terms of the TRI Pointe Transaction, certain assets and liabilities of WRECO and its subsidiaries will be excluded from the transaction and retained by Weyerhaeuser, including assets and liabilities relating to the Coyote Springs Property. See *Note 23: Transaction Agreement with TRI Pointe Homes, Inc.* During the fourth quarter of 2013, following the announcement of the TRI Pointe Transaction, WRECO and Weyerhaeuser began exploring strategic alternatives for the Coyote Springs Property and determined that Weyerhaeuser's strategy for development of the Coyote Springs Property will likely differ from WRECO's current development plan. WRECO's development plan was long-term in nature with development and net cash flows covering at least 15-20 years. The undiscounted cash flows for the Coyote Springs Property under the WRECO development plan remained above the carrying value of the property. Weyerhaeuser's strategy is to cease holding the Coyote Springs Property for development and to initiate activities in the near-term to market the assets to potential third-party buyers. The undiscounted cash flows under the Weyerhaeuser asset sale strategy were below the carrying value of the property. Consequently, WRECO recognized a non-cash charge of \$343.3 million in the fourth quarter of 2013 for the impairment of the Coyote Springs Property.

The homebuilding impairment charge in 2011 was primarily related to the impairment of two individual communities. A \$2.0 million impairment at Maracay was triggered by price reductions in a community in response

## Table of Contents

to local market conditions. A \$6.1 million impairment at Quadrant was triggered by slower than expected new orders in a community as a result of local market conditions and management's decision to market the community for sale.

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 reported as write-off of pre-acquisition costs.

The following table provides information about our homebuilding assets with impairments:

### DOLLAR AMOUNTS IN THOUSANDS

|  | (UNAUDITED)        |                 | YEAR ENDED       |                 |                  |
|--|--------------------|-----------------|------------------|-----------------|------------------|
|  | THREE MONTHS ENDED |                 | DECEMBER 31,     | DECEMBER 31,    | DECEMBER 31,     |
|  | MARCH 31,          | MARCH 31,       | 2013             | 2012            | 2011             |
|  | 2014               | 2013            |                  |                 |                  |
| Total homebuilding impairment charges                          | \$ 10              | \$ 295          | \$ 341,086       | \$ 735          | \$ 9,751         |
| Fair value measurements using:                                 |                    |                 |                  |                 |                  |
| Quoted prices in active markets for identical assets (Level 1) | N/A                | N/A             | N/A              | N/A             | N/A              |
| Significant other observable inputs (Level 2)                  | \$ 1,262           | \$ 2,312        | \$ 1,528         | \$ 1,184        | \$ 4,722         |
| Significant unobservable inputs (Level 3)                      | N/A                | N/A             | 20,000           | N/A             | 13,981           |
| Total adjusted book value as of the end of the period          | <u>\$ 1,262</u>    | <u>\$ 2,312</u> | <u>\$ 21,528</u> | <u>\$ 1,184</u> | <u>\$ 18,703</u> |

Total impairment charges include impairments of certain assets that were disposed of during the period. Impaired book values at March 31, 2014, and December 31, 2013, 2012 and 2011, only include assets that were impaired during the period and that remain on our balance sheet as of the end of the period.

We use the market approach to determine fair value of our assets when information for comparable assets is available. This approach is commonly used for completed inventory and individual assets for sale. We typically use:

- sales prices for comparable assets,
- market studies,
- appraisals, or
- legitimate offers.

We generally use the income approach to determine fair value of real estate for our inactive projects and assets in process of development. The fair value measurement is based on the value indicated by current market expectations regarding future estimated cash inflows and outflows.

The significant unobservable inputs considered in our Level 3 valuations include discounted future cash flows of the projects. We use present value techniques based on discounting the estimated cash flows using a rate

## Table of Contents

commensurate with the inherent risk associated with the assets and related estimated cash flow streams. The estimated future cash flows are affected by community-specific factors that include:

- estimates and timing of future revenues;
- estimates and timing of future land development, materials, labor and contractor costs;
- community location and desirability, including availability of schools, retail, mass transit and other services;
- local economic and demographic trends regarding employment, new jobs and taxes;
- competitor presence, product types, future competition, pricing, incentives and discounts; and
- land availability, number of lots we own or control, entitlement restrictions and alternative uses.

The estimated fair value of the Coyote Springs Property that was impaired during 2013 was primarily based on an independent appraisal. WRECO management is responsible for the estimated fair value of the Coyote Springs Property, but considered the independent appraisal as part of their evaluation. The estimated fair value was determined using both other observable inputs (Level 2) related to other market transactions and significant unobservable inputs (Level 3) such as the timing and amounts of future cash flows related to the development of the property, timing and amounts of proceeds from acreage sales, access to water for use on the property and discount rates applicable to the future cash flows. The discount rate applied to the estimated future cash flow projections was 25 percent.

There were no Level 3 valuations in 2014 or 2012. Discount rates applied to the estimated future cash flows of our homebuilding assets in 2011 ranged from 15 percent to 18 percent.

### NOTE 20: CHARGES FOR RESTRUCTURING

Restructuring costs and expenses include costs incurred in connection with the pending TRI Pointe Transaction and costs incurred in connection with general cost reduction initiatives. Restructuring costs were comprised of the following:

#### DOLLAR AMOUNTS IN THOUSANDS

|                         | (UNAUDITED)        |               | YEAR ENDED       |                 |                 |
|-------------------------|--------------------|---------------|------------------|-----------------|-----------------|
|                         | THREE MONTHS ENDED |               | DECEMBER 31,     | DECEMBER 31,    | DECEMBER 31,    |
|                         | MARCH 31,          | MARCH 31,     | 2013             | 2012            | 2011            |
|                         | 2014               | 2013          |                  |                 |                 |
| Employee-related costs  | \$ 1,247           | \$ 63         | \$ 5,736         | \$ 573          | \$ 999          |
| Lease termination costs | 411                | 377           | 5,202            | 1,887           | 1,802           |
| Other costs             | 58                 | —             | —                | —               | —               |
| Total                   | <u>\$ 1,716</u>    | <u>\$ 440</u> | <u>\$ 10,938</u> | <u>\$ 2,460</u> | <u>\$ 2,801</u> |

Employee-related costs incurred in three months ended March 31, 2014 and the year ended December 31, 2013 included employee retention, severance and other costs incurred primarily in connection with the pending TRI Pointe Transaction. These costs were recognized in the Corporate and other reporting segment. Additional employee-related restructuring costs expected to be incurred in connection with the TRI Pointe Transaction are estimated to be approximately \$5 million and are expected to be incurred during the remainder of 2014.

Lease termination costs relate to contract terminations in both the current and prior years related to general cost reduction initiatives. Lease termination costs recognized in the year ended December 31, 2013 included \$3.8 million of charges at Pardee and \$1.4 million of charges at Quadrant. Lease termination costs recognized in 2012 and 2011 were primarily related to Pardee.

Other costs are primarily comprised of one-time charges incurred to prepare for the integration of WRECO and TRI Pointe. These costs were incurred in the Corporate and other reporting segment and were generally expensed as incurred.

## Table of Contents

Changes in our reserves related to restructuring activities were as follows:

### EMPLOYEE-RELATED RESTRUCTURE RESERVES

#### DOLLAR AMOUNTS IN THOUSANDS

|  | (UNAUDITED)<br>THREE MONTHS ENDED |                   | YEAR ENDED           |                      |                      |
|--|-----------------------------------|-------------------|----------------------|----------------------|----------------------|
|  | MARCH 31,<br>2014                 | MARCH 31,<br>2013 | DECEMBER 31,<br>2013 | DECEMBER 31,<br>2012 | DECEMBER 31,<br>2011 |
| Accrued employee-related costs,<br>beginning of year | \$ 4,336                          | \$ 28             | \$ 28                | \$ 104               | \$ 307               |
| Current year charges                                 | 1,247                             | 63                | 5,736                | 573                  | 999                  |
| Payments   | (5,583)                           | (91)              | (1,428)              | (649)                | (1,202)              |
| Accrued employee-related costs,<br>end of period     | \$ —                              | \$ —              | \$ 4,336             | \$ 28                | \$ 104               |

### LEASE TERMINATION RESERVES

#### DOLLAR AMOUNTS IN THOUSANDS

|   | (UNAUDITED)<br>THREE MONTHS ENDED |                   | YEAR ENDED           |                      |                      |
|---|-----------------------------------|-------------------|----------------------|----------------------|----------------------|
|   | MARCH 31,<br>2014                 | MARCH 31,<br>2013 | DECEMBER 31,<br>2013 | DECEMBER 31,<br>2012 | DECEMBER 31,<br>2011 |
| Accrued lease termination costs,<br>beginning of year | \$ 3,506                          | \$ 2,335          | \$ 2,335             | \$ 3,674             | \$ 5,572             |
| Current year charges                                  | 411                               | 377               | 5,202                | 1,887                | 1,802                |
| Payments  | (1,159)                           | (547)             | (4,031)              | (3,226)              | (3,700)              |
| Accrued lease termination costs, end<br>of period     | \$ 2,758                          | \$ 2,165          | \$ 3,506             | \$ 2,335             | \$ 3,674             |

### NOTE 21: OTHER INCOME (EXPENSE), NET

Other income (expense), net can fluctuate from year to year and includes:

- both recurring and occasional income and expense items
- interest income, and
- interest expense, net of amounts capitalized.

Various income and expense items included in other income (expense), net for the three months ended March 31, 2014 and 2013 and the three years ended December 31, 2013, 2012 and 2011 are as follows:

#### DOLLAR AMOUNTS IN THOUSANDS

|   | (UNAUDITED)<br>THREE MONTHS ENDED |                   | YEAR ENDED           |                      |                      |
|---|-----------------------------------|-------------------|----------------------|----------------------|----------------------|
|   | MARCH 31,<br>2014                 | MARCH 31,<br>2013 | DECEMBER 31,<br>2013 | DECEMBER 31,<br>2012 | DECEMBER 31,<br>2011 |
| Interest income                                 | \$ 380                            | \$ 1,131          | \$ 3,450             | \$ 1,692             | \$ 1,448             |
| Interest expense, net of amounts<br>capitalized | (229)                             | (553)             | (3,593)              | (4,979)              | (2,216)              |
| Other, net                                      | 584                               | 373               | 2,593                | 1,711                | 1,264                |
| Total   | \$ 735                            | \$ 951            | \$ 2,450             | \$ (1,576)           | \$ 496               |

## Table of Contents

### NOTE 22: I NCOME TAXES

This note provides details about our income taxes applicable to continuing operations:

- method used for allocating income taxes,
- earnings before income taxes,
- provision for income taxes,
- effective income tax rate,
- deferred tax assets and liabilities, and
- unrecognized tax benefits.

#### ***METHOD USED FOR ALLOCATING INCOME TAXES***

Income taxes are allocated to us using the pro rata method, which means our tax provisions and resulting income tax receivable from or payable to Weyerhaeuser NR Company represent the income tax amounts allocated to us on pro rata share method based upon our actual results. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases and for operating loss and tax credit carryforwards which exist for Weyerhaeuser NR Company and are attributable to our operations.

If we were to calculate income taxes using the separate return method, there would be no change to our income tax provision, and our balance sheet as of December 31, 2013 would reflect \$0.5 million less deferred tax asset due to utilization of federal credit carryovers on a separate return basis that have not yet been utilized on a consolidated return basis. Our balance sheet at December 31, 2012 would reflect an additional deferred tax asset in the amount of \$17 million on a separate return basis for federal net operating losses and credit carryforwards. The difference in the deferred tax asset calculated under the separate return method would be recorded as an adjustment to capital for the hypothetical dividend in 2013 or contribution in 2012 for the difference between the amount received under the tax allocation agreement and the hypothetical settlement based on the separate return method. With the exception of the valuation allowance discussed below, we believe it is more likely than not that we will have sufficient future taxable income on a separate return basis in order to fully realize our deferred tax assets.

#### ***EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES***

##### DOLLAR AMOUNTS IN THOUSANDS

|  | <b>YEAR ENDED</b>                  |                                    |                                    |
|--|------------------------------------|------------------------------------|------------------------------------|
|  | <u>DECEMBER 31,</u><br><u>2013</u> | <u>DECEMBER 31,</u><br><u>2012</u> | <u>DECEMBER 31,</u><br><u>2011</u> |
| Earnings (loss) from continuing operations<br>before taxes | \$ (237,454)                       | \$ 99,629                          | \$ 54,272                          |

## Table of Contents

### INCOME TAX EXPENSE FROM CONTINUING OPERATIONS

| <u>DOLLAR AMOUNTS IN THOUSANDS</u>        |                                    |                                    |                                    |
|---|------------------------------------|------------------------------------|------------------------------------|
|   | <u>DECEMBER 31,</u><br><u>2013</u> | <u>DECEMBER 31,</u><br><u>2012</u> | <u>DECEMBER 31,</u><br><u>2011</u> |
| <b>Current:</b>                           |                                    |                                    |                                    |
| Federal                                   | \$ 21,773                          | \$ 1,457                           | \$ (8,681)                         |
| State                                     | 1,646                              | 122                                | 701                                |
| Total current taxes                       | <u>23,419</u>                      | <u>1,579</u>                       | <u>(7,980)</u>                     |
| <b>Deferred:</b>                          |                                    |                                    |                                    |
| Federal                                   | (107,651)                          | 33,446                             | 26,934                             |
| State                                     | (1,929)                            | 3,885                              | 379                                |
| Total deferred taxes                      | <u>(109,580)</u>                   | <u>37,331</u>                      | <u>27,313</u>                      |
| <b>Total income tax (benefit) expense</b> | <u>\$ (86,161)</u>                 | <u>\$ 38,910</u>                   | <u>\$ 19,333</u>                   |

### EFFECTIVE INCOME TAX RATE APPLICABLE TO CONTINUING OPERATIONS

| <u>DOLLAR AMOUNTS IN THOUSANDS</u>            |                                    |                                    |                                    |
|---|------------------------------------|------------------------------------|------------------------------------|
|   | <u>DECEMBER 31,</u><br><u>2013</u> | <u>DECEMBER 31,</u><br><u>2012</u> | <u>DECEMBER 31,</u><br><u>2011</u> |
| U.S. federal statutory income tax             | \$ (83,109)                        | \$ 34,870                          | \$ 18,995                          |
| State income taxes, net of federal tax impact | (859)                              | 3,964                              | 835                                |
| Other, net                                    | (2,193)                            | 76                                 | (497)                              |
| Total income tax (benefit) expense            | <u>\$ (86,161)</u>                 | <u>\$ 38,910</u>                   | <u>\$ 19,333</u>                   |
| Effective income tax rate                     | 36.3%                              | 39.1%                              | 35.6%                              |

### ESTIMATED ANNUAL EFFECTIVE TAX RATE

The provision for income taxes for the three months ended March 31, 2014, and March 31, 2013, are based on the current estimate of the annual effective tax rate adjusted to reflect the tax impact of items discrete to the quarter.

Our estimated effective income tax rates excluding discrete items were:

- 37.4 percent (unaudited) for the three months ending March 31, 2014
- 37.2 percent (unaudited) for the three months ending March 31, 2013

The effective rates are higher than the statutory rate primarily due to the effect of state income taxes.

Excluded from the calculation of our effective income tax rate for 2013 is a \$400,000 benefit for the 2012 Energy Efficiency Credit that was not extended retroactively into law until the American Taxpayer Relief Act of 2012 was enacted in January 2013.

### DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities reflect temporary differences between pretax book income and taxable income using presently enacted tax rates and laws. Deferred tax assets represent tax benefits that have already been recorded for book purposes but will be recorded for tax purposes in the future. Deferred tax liabilities represent income that has been recorded for book purposes but will be reported as taxable income in the future.

## Table of Contents

### Items Included in Deferred Tax Assets (Liabilities)

|  | DECEMBER 31,<br>2013 | DECEMBER 31,<br>2012 |
|--|----------------------|----------------------|
| Deferred tax assets:                     |                      |                      |
| Impairment and other valuation reserves  | \$ 230,430           | \$ 126,074           |
| Incentive compensation                   | 15,892               | 17,742               |
| Indirect costs capitalized               | 17,068               | 16,196               |
| Net operating loss carryforwards (state) | 34,000               | 47,122               |
| Other costs and expenses                 | 21,970               | 17,917               |
| Gross deferred tax assets                | 319,360              | 225,051              |
| Valuation allowance                      | (8,300)              | (20,000)             |
| Net deferred tax assets                  | 311,060              | 205,051              |
| Deferred tax liabilities:                |                      |                      |
| Interest capitalized                     | (3,040)              | (5,450)              |
| Basis difference in inventory            | (14,007)             | (15,313)             |
| Intangibles                              | (2,463)              | (2,640)              |
| Other                                    | (2,567)              | (2,063)              |
| Deferred tax liabilities                 | (22,077)             | (25,466)             |
| Net deferred tax assets                  | \$ 288,983           | \$ 179,585           |

### OTHER INFORMATION ABOUT OUR DEFERRED TAX ASSETS (LIABILITIES)

Other information about our deferred income tax assets (liabilities) include:

- net operating loss carryforwards and
- valuation allowance

#### Net Operating Loss Carryforwards

As of December 31, 2013, our state net operating loss carryforward was \$34.0 million, which will expire between 2014 through 2033.

#### Valuation Allowance

We believe it is more likely than not that we will have sufficient future taxable income to realize our deferred tax assets, with the exception of \$8.3 million in state net operating losses for which we have recorded a valuation allowance as of December 31, 2013. The valuation allowance decreased \$11.7 million from the amount reported in 2012 due to the expiration of certain state net operating loss carryforwards. We file either separate or unitary state income tax returns.

### UNRECOGNIZED TAX BENEFITS

Unrecognized tax benefits represent potential future obligations to taxing authorities if uncertain tax positions we have taken on previously filed tax returns are not sustained. These amounts represent the gross amount of exposure in individual jurisdictions and do not reflect any additional benefits expected to be realized if such positions were not sustained, such as the federal deduction that could be realized if an unrecognized state deduction was not sustained. We have no unrecognized tax benefits as of December 31, 2013 or 2012.

In accordance with our accounting policy, we would accrue interest and penalties related to unrecognized tax benefits as a component of income tax expense.

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## Table of Contents

As of December 31, 2012, our parent, Weyerhaeuser NR Company's 2008-2010 consolidated federal income tax returns were under examination. The examination was completed during 2013. During April 2014, Weyerhaeuser NR Company's 2012 consolidated federal income tax return was opened for examination.

### **NOTE 23: TRANSACTION AGREEMENT WITH TRI POINTE HOMES, INC.**

On June 16, 2013, Weyerhaeuser announced its Board of Directors authorized the exploration of strategic alternatives with respect to WRECO. The Board indicated that it intended to consider a broad range of alternatives including, but not limited to, continuing to operate WRECO, or a merger, sale or spin-off of the business.

On November 4, 2013, Weyerhaeuser announced that they had entered into a transaction agreement dated as of November 3, 2013, with TRI Pointe Homes, Inc. ("TRI Pointe"). Pursuant to the transaction agreement, WRECO will be divested through a Reverse Morris Trust transaction and ultimately become a wholly owned subsidiary of TRI Pointe.

Under the terms of the transaction agreement with TRI Pointe, certain assets and liabilities of WRECO and its subsidiaries will be excluded from the TRI Pointe Transaction and retained by Weyerhaeuser, including assets and liabilities relating to the Coyote Springs Property. Weyerhaeuser will indemnify WRECO for costs incurred in connection with the transfer of the Coyote Springs Property from WRECO to Weyerhaeuser.

The Coyote Springs Property involves operating agreements with multiple counterparties. In connection with the Coyote Springs Property, WRECO owns 10,686 lots and has an additional 56,413 lots under control through an option agreement. The total book value of assets related to the Coyote Springs Property was approximately \$20.0 million as of March 31, 2014 (unaudited) and December 31, 2013. The book value of inventory related to the Coyote Springs Property on the accompanying consolidated balance sheet is included in land held for future use in *Note 5: Inventory*, as home construction, sale and related residential development of this property has been delayed pending further market recovery.

Upon close of the TRI Pointe Transaction, which is expected to occur in the third quarter of 2014, our participation in the Revolving Credit Facility Agreement, under which we may currently borrow up to \$50.0 million jointly with Weyerhaeuser, and our promissory note due to Weyerhaeuser will expire. See *Note 11: Relationship and Transactions with Weyerhaeuser* and *Note 12: Debt and Revolving Lines of Credit* for additional information.

## Table of Contents

### NOTE 24: DISCONTINUED OPERATIONS

On October 31, 2013, our wholly owned subsidiary, Weyerhaeuser Realty Investors, Inc. (WRI), was sold to Weyerhaeuser NR Company. The assets, liabilities as of December 31, 2012 and results of operations for WRI for all periods presented have been recorded as discontinued operations in the accompanying consolidated financial statements. Cash flows of WRI remain fully consolidated in the accompanying consolidated statement of cash flows.

#### ASSETS AND LIABILITIES OF DISCONTINUED OPERATIONS

| <u>DOLLAR AMOUNTS IN THOUSANDS</u>       |                              |
|--|------------------------------|
|  | <u>DECEMBER 31,<br/>2012</u> |
| Assets:                                  |                              |
| Receivables, net                         | \$ 144                       |
| Income tax receivable from Weyerhaeuser  | 15,522                       |
| Deferred tax assets                      | 2,627                        |
| Total assets                             | <u>\$ 18,293</u>             |
| Liabilities:                             |                              |
| Accounts payable and accrued liabilities | \$ 698                       |
| Total liabilities                        | <u>\$ 698</u>                |

#### EARNINGS OF DISCONTINUED OPERATIONS

##### DOLLAR AMOUNTS IN THOUSANDS

|  | (UNAUDITED)<br>THREE MONTHS ENDED |                   | YEAR ENDED           |                      |                      |
|--|-----------------------------------|-------------------|----------------------|----------------------|----------------------|
|  | MARCH 31,<br>2014                 | MARCH 31,<br>2013 | DECEMBER 31,<br>2013 | DECEMBER 31,<br>2012 | DECEMBER 31,<br>2011 |
| Earnings before income taxes                 | \$ —                              | \$ 300            | \$ 602               | \$ 487               | \$ 115               |
| Gain on sale of discontinued operations      | —                                 | —                 | 1,946                | —                    | —                    |
| Income tax benefit (expense)                 | —                                 | (111)             | (710)                | 275                  | 474                  |
| Discontinued operations, net of income taxes | <u>\$ —</u>                       | <u>\$ 189</u>     | <u>\$ 1,838</u>      | <u>\$ 762</u>        | <u>\$ 589</u>        |

During 2013, WRI received tax payments of \$15.5 million from Weyerhaeuser. On October 31, 2013, Weyerhaeuser NR acquired WRI for \$3.6 million, which represents the estimated fair value of WRI based on a discounted cash flow analysis. The purchase price was recorded as a reduction in our debt payable to Weyerhaeuser. The sale of WRI resulted in a net gain to WRECO of approximately \$1.9 million, which was recognized in the fourth quarter of 2013.

### NOTE 25: SUBSEQUENT EVENTS

We have evaluated events and transactions through the date these consolidated financial statements were issued, for items that should potentially be recognized or disclosed.