

Edgar Filing: CAPITAL PACIFIC HOLDINGS INC - Form 10-Q

CAPITAL PACIFIC HOLDINGS INC

Form 10-Q

January 16, 2001

1

-----  
-----  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

-----  
FORM 10-Q  
-----

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2000

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

COMMISSION FILE NUMBER: 001-09911

-----  
CAPITAL PACIFIC HOLDINGS, INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

95-2956559  
(I.R.S. EMPLOYER  
IDENTIFICATION NUMBER)

4100 MACARTHUR BLVD., SUITE 200, NEWPORT BEACH, CA 92660  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

(949) 622-8400  
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

-----  
Indicate by check mark whether the Registrant (1) filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
Registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes  
of common stock, as of the latest practicable date.

CLASS AND TITLE OF  
CAPITAL STOCK  
-----

SHARES OUTSTANDING AS OF  
DECEMBER 29, 2000  
-----

Edgar Filing: CAPITAL PACIFIC HOLDINGS INC - Form 10-Q

Common Stock, \$.10 Par Value 13,767,311

-----  
-----  
2

CAPITAL PACIFIC HOLDINGS, INC.

INDEX TO FORM 10-Q

	PAGE
	----
PART I -- FINANCIAL INFORMATION	
Item 1. Financial Statements.....	1
Consolidated Balance Sheets -- November 30, 2000 and February 29, 2000.....	1
Consolidated Statements of Income for the Three and Nine Months Ended November 30, 2000 and 1999.....	2
Consolidated Statements of Cash Flows for the Nine Months Ended November 30, 2000 and 1999.....	3
Notes to Consolidated Financial Statements.....	4
Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition.....	8
PART II -- OTHER INFORMATION	
Item 6. Exhibits and Reports on Form 8-K.....	12

i

3

PART 1 -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CAPITAL PACIFIC HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(DOLLARS IN THOUSANDS)

ASSETS

	NOVEMBER 30, 2000	FEBRUARY 29, 2000
	-----	-----
	(UNAUDITED)	
Cash and cash equivalents.....	\$ 6,787	\$ 19,389
Restricted cash.....	857	1,373
Accounts and notes receivable.....	13,667	22,862
Real estate projects.....	275,844	282,497
Property, plant and equipment.....	8,106	8,536
Investment in and advances to unconsolidated joint		

Edgar Filing: CAPITAL PACIFIC HOLDINGS INC - Form 10-Q

ventures.....	18,259	15,379
Prepaid expenses and other assets.....	15,781	8,245
	-----	-----
Total assets.....	\$ 339,301	\$ 358,281
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable and accrued liabilities.....	\$ 40,459	\$ 39,600
Notes payable.....	129,030	125,809
Senior unsecured notes payable.....	55,592	88,392
	-----	-----
Total liabilities.....	225,081	253,801
	-----	-----
Minority Interest.....	36,927	33,594
	-----	-----

Stockholders' equity:

Common stock, par value \$.10 per share, 30,000,000 shares authorized; 13,767,911 and 13,815,911 shares issued and outstanding, respectively.....	1,500	1,500
Additional paid-in capital.....	211,888	211,888
Accumulated deficit.....	(132,580)	(139,243)
Treasury stock.....	(3,515)	(3,259)
	-----	-----
Total stockholders' equity.....	77,293	70,886
	-----	-----
Total liabilities and stockholders' equity.....	\$ 339,301	\$ 358,281
	=====	=====

See accompanying notes to financial statements.

1

4

CAPITAL PACIFIC HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME  
(IN THOUSANDS EXCEPT PER SHARE DATA)  
(UNAUDITED)

	THREE MONTHS ENDED NOVEMBER 30,		NINE MONTHS ENDED NOVEMBER 30,	
	2000	1999	2000	1999
	-----	-----	-----	-----
Sales of homes and land.....	\$84,583	\$63,430	\$245,832	\$192,787
Cost of sales.....	63,145	49,293	187,113	154,853
	-----	-----	-----	-----
Gross margin.....	21,438	14,137	58,719	37,934
Income from unconsolidated joint ventures.....	56	315	13	1,867
Selling, general and administrative expenses.....	(9,183)	(7,077)	(27,725)	(20,684)
Interest expense.....	(9,454)	(5,950)	(23,013)	(14,836)
	-----	-----	-----	-----
Income from operations.....	2,857	1,425	7,994	4,281
Interest and other income, net.....	364	207	1,376	498
Minority Interest.....	(990)	(508)	(2,836)	(1,401)
	-----	-----	-----	-----

Edgar Filing: CAPITAL PACIFIC HOLDINGS INC - Form 10-Q

Income before income taxes and extraordinary item.....	2,231	1,124	6,534	3,378
Provision for income taxes.....	472	312	1,332	846
	-----	-----	-----	-----
Income before extraordinary item.....	1,759	812	5,202	2,532
Extraordinary gain for debt retired at less than face value, net of minority interest and taxes.....	71	--	1,461	200
	-----	-----	-----	-----
Net income.....	\$ 1,830	\$ 812	\$ 6,663	\$ 2,732
	=====	=====	=====	=====
Net income per share -- basic and diluted:				
Income per share before extraordinary item.....	\$ 0.13	\$ 0.06	\$ 0.38	\$ 0.18
Extraordinary gain for debt retired at less than face value, net of minority interest and taxes.....	--	--	0.10	0.02
	-----	-----	-----	-----
Net income per share.....	\$ 0.13	\$ 0.06	\$ 0.48	\$ 0.20
	=====	=====	=====	=====
Weighted average number of common shares --basic...	13,768	13,884	13,775	13,940
	=====	=====	=====	=====
Weighted average number of common shares -- diluted.....	13,904	13,884	13,885	13,957
	=====	=====	=====	=====

See accompanying notes to financial statements.

2

5

CAPITAL PACIFIC HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)  
(UNAUDITED)

	FOR THE NINE MONTHS ENDED NOVEMBER 30,	
	2000	1999
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$ 6,663	\$ 2,732
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gain on retirement of senior unsecured notes payable.....	(1,461)	(200)
Depreciation and amortization.....	1,124	1,472
Change in restricted cash.....	516	(222)
(Increase) decrease in real estate projects.....	6,653	(29,703)
Decrease in receivables, prepaid expenses and other assets.....	1,197	6,446
Increase (decrease) in accounts payable and accrued liabilities.....	494	(16,224)
Minority interest.....	2,836	1,514
	-----	-----
Net cash provided by (used in) operating activities....	18,022	(34,185)
	-----	-----

## Edgar Filing: CAPITAL PACIFIC HOLDINGS INC - Form 10-Q

CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment, net.....	(694)	(674)
Contributions (distributions) to minority interest.....	(365)	106
Decrease in investment in and advances to unconsolidated joint ventures.....	(2,880)	7,992
	-----	-----
Net cash provided by (used in) investing activities....	(3,939)	7,424
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings (payments) on notes payable, net.....	3,221	24,967
Retirement of senior unsecured notes payable.....	(29,650)	(1,770)
Repurchase of common stock and warrants.....	(256)	(532)
	-----	-----
Net cash provided by (used in) financing activities....	(26,685)	22,665
	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS.....	(12,602)	(4,096)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD.....	19,389	5,782
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$ 6,787	\$ 1,686
	=====	=====

See accompanying notes to financial statements.

3

6

### CAPITAL PACIFIC HOLDINGS, INC., AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

##### 1. BASIS OF PRESENTATION

The unaudited financial statements presented herein have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by generally accepted accounting principles. These statements should be read in conjunction with the consolidated financial statements, and notes thereto, included in the Form 10-K for the fiscal year ended February 29, 2000, of Capital Pacific Holdings, Inc. (the "Company"). In the opinion of management, the financial statements presented herein include all adjustments (which are solely of a normal recurring nature) necessary to present fairly the Company's financial position and results of operations. The results of operations for the nine month period ended November 30, 2000, are not necessarily indicative of the results that may be expected for the year ending February 28, 2001. The consolidated financial statements include the accounts of the Company, wholly owned subsidiaries and certain majority owned joint ventures, as well as the accounts of Capital Pacific Holdings, LLC ("CPH LLC") of which the Company owns a majority interest. The accompanying consolidated balance sheets (See Note 3), include the capital accounts of CPH LLC totaling \$103 million, \$33 million of which is required to be presented as minority interest. All other investments are accounted for on the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

##### 2. RECLASSIFICATIONS

Certain items in prior period financial statements have been reclassified in order to conform with current year presentation.

##### 3. COMPANY ORGANIZATION AND OPERATIONS

## Edgar Filing: CAPITAL PACIFIC HOLDINGS INC - Form 10-Q

The Company is a regional builder and developer with operations throughout selected metropolitan areas of Southern California, Nevada, Texas, Arizona and Colorado. The Company's principal business activities are to build and sell single-family homes and to develop and build commercial and mixed-use projects. The Company's single-family homes are targeted to entry-level, move-up and luxury buyers. The acquisition and development of commercial and mixed-use projects, as well as ownership of existing commercial properties is accomplished primarily through non-majority investments in limited liability companies.

In fiscal year 1998, the Company consummated an equity and restructuring transaction whereby the Company and certain of its subsidiaries transferred to CPH LLC substantially all of their respective assets and CPH LLC assumed all the liabilities of the Company and its subsidiaries. At the current time, the Company, together with its subsidiaries, has a 67.93% interest in CPH LLC. An unaffiliated investment company, California Housing Finance, L.P. ("CHF") holds a 32.07% minority interest in CPH LLC as a result of a cash investment in CPH LLC. Subject to adjustment and exceptions under certain circumstances, at the current time, CHF has the same interest in all future business of the Company, all of which will be conducted either within CPH LLC or through project specific entities. Assets under management, including unconsolidated joint ventures, totaled \$766 million at November 30, 2000 in 61 residential and commercial properties. At November 30, 2000, CPH LLC had \$250 million in assets and a net worth of \$103 million. In addition, the Company has interests in unconsolidated joint ventures which have total assets of \$426 million and a combined net worth of \$352 million at November 30, 2000. The Company is the sole managing member of CPH LLC. The Company maintains certain licenses and other assets as are necessary to fulfill its obligations as managing member. The Company and its subsidiaries perform their respective management functions for CPH LLC as well as other project-specific entities of which the Company is the managing member pursuant to management agreements, which include provisions for the reimbursement of Company and subsidiary costs, a management fee and indemnification by CPH LLC and the project-specific entities.

4

7

### CAPITAL PACIFIC HOLDINGS, INC., AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (UNAUDITED)

References to the Company are, unless the context indicates otherwise, also references to CPH LLC and the project-specific entities. At the current time, all material financing transactions and arrangements are incurred either by CPH LLC or by the project-specific entities.

#### 4. INVESTMENTS IN UNCONSOLIDATED ENTITIES

The Company is a general partner or a direct or indirect managing member and has a 50 percent or less ownership in 15 unconsolidated entities at November 30, 2000. The Company's net investment in and advances to unconsolidated entities are as follows at November 30, 2000 and February 29, 2000 (in thousands):

	NOVEMBER 30, 2000	FEBRUARY 29, 2000
	-----	-----
JMP Canyon Estates, L.P. ....	\$ 162	\$ 159
JMP Harbor View, L.P. ....	609	621

Edgar Filing: CAPITAL PACIFIC HOLDINGS INC - Form 10-Q

Grand Coto Estates, L.P. ....	480	(633)
M.P.E. Partners, L.P. ....	1,675	1,710
RPV Associates, LLC.....	573	2,759
CPH Dana Point, LLC.....	150	266
CPH Monarch Beach, LLC.....	519	445
CPH Resorts I, LLC.....	7,660	4,700
CPH Vista Palisades, LLC.....	418	435
Atlanta Huntington Beach, LLC.....	743	1,259
CPH Dos Pueblos, LLC.....	4,416	3,595
CPH Airport Office Building, LLC.....	2	7
CPH Redhill Office Building, LLC.....	41	56
LB/L-CPH Providence, LLC.....	600	--
CPH Orange Office Building, LLC.....	211	--
	-----	-----
	\$18,259	\$15,379
	=====	=====

The Company's ownership interests in the above entities vary. Generally, the Company receives a percentage of earnings although a preferred return on invested capital is provided. Typically, the majority of capital is provided by capital partners. The Company is typically a general partner or managing member in each of the above entities and is the managing entity pursuant to the terms of each venture's agreement. The Company's carrying amount in each of the entities equals the underlying equity and reimbursable advances, and there are generally no significant amounts of undistributed earnings. The Company provides for income taxes currently on its share of distributed and undistributed earnings and losses from the investments.

The Company uses the equity method of accounting for its investments in these unconsolidated 50 or less percent-owned entities. The accounting policies of the entities are substantially the same as those of the Company.

5

8

CAPITAL PACIFIC HOLDINGS, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
(UNAUDITED)

Following is summarized, combined financial information for the unconsolidated entities at November 30, 2000 and February 29, 2000 and for the three and nine month periods ended November 30, 2000 and November 30, 1999 (in thousands):

ASSETS

	NOVEMBER 30, 2000	FEBRUARY 29, 2000
	-----	-----
Cash.....	\$ 5,120	\$ 11,225
Real estate projects.....	361,351	281,402
Commercial buildings.....	24,455	21,071
Other assets.....	35,464	31,281
	-----	-----
	\$426,390	\$344,979
	=====	=====

Edgar Filing: CAPITAL PACIFIC HOLDINGS INC - Form 10-Q

LIABILITIES AND EQUITY

	NOVEMBER 30, 2000	FEBRUARY 29, 2000
	-----	-----
Accounts payable and other liabilities.....	\$ 40,138	\$ 25,724
Notes payable.....	33,911	37,722
	-----	-----
	74,049	63,446
	-----	-----
Equity.....	352,341	281,533
	-----	-----
	\$426,390	\$344,979
	=====	=====

INCOME STATEMENT

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	NOVEMBER 30, 2000	NOVEMBER 30, 1999	NOVEMBER 30, 2000	NOVEMBER 30, 1999
	-----	-----	-----	-----
Sales of homes and land.....	\$11,577	\$2,272	\$39,699	\$22,143
Interest and other income, net.....	4,437	3,258	10,198	8,196
	-----	-----	-----	-----
	16,014	5,530	49,897	30,339
Costs and expenses.....	8,529	3,860	40,629	25,791
	-----	-----	-----	-----
Net income.....	\$ 7,485	\$1,670	\$ 9,268	\$ 4,548
	=====	=====	=====	=====

5. NOTES PAYABLE

Notes payable at November 30, 2000 and February 29, 2000, are summarized as follows (in thousands):

	NOVEMBER 30, 2000	FEBRUARY 29, 2000
	-----	-----
Notes payable to banks, including interest varying from LIBOR plus two to thirteen percent, maturing between February 9, 2001 and February 3, 2003, secured by certain real estate projects on a non-recourse basis.....	\$104,785	\$105,951
Notes payable to banks, including interest at prime with the terms of the commitment reducing commencing August 1, 2002, secured by certain real estate projects on a recourse basis.....	20,462	19,281
Other.....	3,783	577
	-----	-----



Edgar Filing: CAPITAL PACIFIC HOLDINGS INC - Form 10-Q

\$129,030  
=====

\$125,809  
=====

6

9

CAPITAL PACIFIC HOLDINGS, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
(UNAUDITED)

6. NET INCOME PER COMMON SHARE

Effective February 28, 1998 the Company adopted SFAS No. 128. This statement requires the presentation of both basic and diluted net income per share for financial statement purposes. Basic net income per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding. Diluted net income per share includes the effect of the potential shares outstanding, including dilutive securities using the treasury stock method. The table below reconciles the components of the basic net income per share calculation to diluted net income per share (in thousands, except per share data):

	THREE MONTHS ENDED					
	NOVEMBER 30, 2000			NOVEMBER 30, 1999		
	INCOME	SHARES	EPS	INCOME	SHARES	EPS
Basic net income per share:						
Income available to common stockholders before extraordinary item.....	\$1,759	13,768	\$0.13	\$812	13,884	\$0.06
Effect of dilutive securities:						
Warrants.....	--	--	--	--	--	--
Stock options.....	--	136	--	--	--	--
Diluted net income per share before extraordinary item.....	\$1,759	13,904	\$0.13	\$812	13,884	\$0.06

	NINE MONTHS ENDED					
	NOVEMBER 30, 2000			NOVEMBER 30, 1999		
	INCOME	SHARES	EPS	INCOME	SHARES	EPS
Basic net income per share:						
Income available to common stockholders before extraordinary item.....	\$5,202	13,775	\$0.38	\$2,532	13,940	\$0.18
Effect of dilutive securities:						
Warrants.....	--	--	--	--	--	--
Stock options.....	--	110	--	--	17	--

## Edgar Filing: CAPITAL PACIFIC HOLDINGS INC - Form 10-Q

Diluted net income per share before extraordinary item.....	\$5,202	13,885	\$0.38	\$2,532	13,957	\$0.18
	=====	=====	=====	=====	=====	=====

### 7. COMMON STOCK REPURCHASE PROGRAM

The Company has announced a stock repurchase program whereby up to 1,000,000 shares of the Company's outstanding common stock may be repurchased by CPH LLC. As of November 30, 2000, approximately 537,600 shares have been repurchased under this program. In addition, the Company has repurchased 176,739 of the warrants originally issued in connection with the issuance of the Senior Notes.

7

10

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

### FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY

Certain statements in the financial discussion and analysis by management contain "forward-looking" information (as defined in the Private Securities Litigation Reform Act of 1995 and within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended) that involves risk and uncertainty, including projections and assumptions regarding the business environment in which the Company operates. Actual future results and trends may differ materially depending on a variety of factors, including the Company's successful execution of internal performance strategies; changes in general national and regional economic conditions, such as levels of employment, consumer confidence and income, availability to homebuilders of financing for acquisitions, development and construction, availability to homebuyers of permanent mortgages, interest rate levels, the demand for housing and office space and commercial lease rates; supply levels of land, labor and materials; difficulties in obtaining permits or approvals from governmental authorities; difficulties in marketing homes; regulatory changes and weather and other environmental uncertainties; competitive influences; and the outcome of pending and future legal claims and proceedings.

### RESULTS OF OPERATIONS -- GENERAL

As is noted in footnote 1 to the financial statements presented herein, the Company is reporting its results on a consolidated basis with the results of CPH LLC. References to the Company in this Item 2 are, unless the context indicates otherwise, also references to CPH LLC. At the current time, all material financing transactions and arrangements are incurred either by CPH LLC or by project-specific entities.

The following table illustrates the actual and pro forma results of the Company's operations for the three and nine months ended November 30, 2000 and 1999. The pro forma results reflect the inclusion of the operating results of the Company's unconsolidated joint ventures, including the portion attributable to the Company's joint venture partners, and are used throughout this discussion for comparative purposes wherever the phrase "pro forma" is utilized.

### RESULTS OF OPERATIONS (AMOUNTS IN THOUSANDS)

THREE MONTHS ENDED

Edgar Filing: CAPITAL PACIFIC HOLDINGS INC - Form 10-Q

	NOVEMBER 30, 2000		NOVEMBER 30, 1999	
	CONSOLIDATED	PRO FORMA WITH JOINT VENTURES	CONSOLIDATED	PRO FORMA WITH JOINT VENTURES
Sales of homes and land.....	\$84,583	\$96,160	\$63,430	\$65,702
Cost of sales.....	63,145	70,350	49,293	49,785
Gross margin.....	\$21,438	\$25,810	\$14,137	\$15,917

	NINE MONTHS ENDED			
	NOVEMBER 30, 2000		NOVEMBER 30, 1999	
	CONSOLIDATED	PRO FORMA WITH JOINT VENTURES	CONSOLIDATED	PRO FORMA WITH JOINT VENTURES
Sales of homes and land.....	\$245,832	\$285,531	\$192,787	\$214,930
Cost of sales.....	187,113	216,541	154,853	171,216
Gross margin.....	\$ 58,719	\$ 68,990	\$ 37,934	\$ 43,714

Since the financial restructuring in October 1997, the Company, together with its financial partners, has invested over \$500 million in 13 new joint ventures. The Company typically is required to fund a small percentage of the capital requirements of each joint venture, typically approximately one percent, which amount is included in investments in and advances to unconsolidated joint ventures in the Company's consolidated balance sheets.

8

11

OPERATING DATA

The following table shows new home deliveries, lot deliveries, net new orders and average sales prices for each of the Company's operations, including unconsolidated joint ventures:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	NOVEMBER 30, 2000	NOVEMBER 30, 1999	NOVEMBER 30, 2000	NOVEMBER 30, 1999
New homes delivered:				
California.....	20	12	42	41
Texas.....	88	113	340	341
Nevada.....	46	87	181	250
Arizona.....	50	67	165	240
Colorado.....	46	9	144	9

Edgar Filing: CAPITAL PACIFIC HOLDINGS INC - Form 10-Q

Subtotal.....	250	288	872	881
Unconsolidated Joint Ventures (California).....	10	3	33	21
	-----	-----	-----	-----
Total homes delivered.....	260	291	905	902
Lot deliveries.....	133	--	663	347
	-----	-----	-----	-----
Total homes and lots delivered.....	393	291	1,568	1,249
	=====	=====	=====	=====
Net new orders.....	290	380	967	1,093
	=====	=====	=====	=====
Average home sales price:				
California.....	\$1,370,000	\$1,087,000	\$1,315,000	\$886,000
Texas.....	222,000	186,000	195,000	187,000
Nevada.....	204,000	191,000	208,000	203,000
Arizona.....	162,000	148,000	160,000	145,000
Colorado.....	222,000	211,000	204,000	211,000
Combined.....	340,000	226,000	285,000	229,000

The following table shows backlog in units and dollars at November 30, 2000 and 1999 for each of the Company's operations, including unconsolidated joint ventures:

	ENDING BACKLOG			
	NOVEMBER 30, 2000		NOVEMBER 30, 1999	
	UNITS	(\$000S)	UNITS	(\$000S)
	-----	-----	-----	-----
California.....	93	\$129,500	58	\$ 61,200
Texas.....	272	70,000	280	55,300
Nevada.....	50	13,000	124	25,700
Arizona.....	101	14,900	137	19,200
Colorado.....	144	22,000	89	15,400
	---	-----	---	-----
Total.....	660	\$249,400	688	\$176,800
	===	=====	===	=====

THIRD QUARTER OF FISCAL 2001 (ENDED NOVEMBER 30, 2000) COMPARED TO THIRD QUARTER OF FISCAL 2000 (ENDED NOVEMBER 30, 1999)

The Company reported net income of \$1.8 million or \$0.13 per share, in the third quarter of fiscal 2001, as compared to net income of \$812,000, or \$0.06 per share, in the third quarter of fiscal 2000. Net income included an extraordinary gain of \$71,000 for the third quarter of fiscal 2001, as a result of the retirement of debt at less than face value.

Sales of homes and land including unconsolidated joint ventures were \$96.2 million for the third quarter of fiscal 2001 compared to \$65.7 million for the third quarter of fiscal 2000. On a consolidated basis, sales of homes and land increased to \$84.6 million from \$63.4 million for the respective quarters. These increases are

## Edgar Filing: CAPITAL PACIFIC HOLDINGS INC - Form 10-Q

due to an increase in unit closings, as well as an increase in Company's average sales price per home to \$340,000 in the third quarter of fiscal 2001 from \$226,000 in the third quarter of fiscal 2000. Total home closings decreased from 291 in the third quarter of fiscal 2000 to 260 in the third quarter of fiscal 2001, including 3 and 10 homes, respectively, closed in unconsolidated joint ventures. Revenues were supplemented by the delivery of 133 lots in the third quarter of fiscal 2001, reflecting additional revenues of \$3.3 million.

The Company's actual gross margin on home and lot closings increased to 25.3% for the third quarter of fiscal 2001 as compared to 22.3% for the third quarter of fiscal 2000. The Company's pro forma gross margin on home and lot closings also increased to 26.8% during the third quarter of fiscal 2001 as compared to 24.2% for the third quarter of fiscal 2000. These increases are due in part to stronger demand experienced in the Company's markets in the current year.

Selling, general and administrative expense of \$9.2 million for the third quarter of fiscal 2001 increased \$2.1 million or 29.8% as compared to the third quarter of fiscal 2000. As a percentage of revenue, selling, general and administrative expense decreased slightly from 11.2% to 10.9% between quarters.

Income from unconsolidated joint ventures decreased from \$315,000 in the third quarter of fiscal 2000 to \$56,000 in the third quarter of fiscal 2001. The Company was recording profit participation on the older joint ventures which reported closings in fiscal 2000, while the profits on the newer joint ventures with closings to date in fiscal 2001 are primarily allocated to cover preferred return on the partners' invested capital.

Interest and other income increased from \$207,000 in the third quarter of fiscal 2000 to \$364,000 in the third quarter of fiscal 2001.

Minority interest of \$990,000 for the third quarter of fiscal 2001 and \$508,000 for the third quarter of fiscal 2000 primarily represents the share of CPH LLC's income attributable to CHF.

Interest incurred was \$6.6 million in the third quarter of fiscal 2001, as compared to \$6.6 million in the third quarter of fiscal 2000, while interest expensed was \$9.5 million during the third quarter of fiscal 2001, as compared to \$6.0 million in the third quarter of fiscal 2000.

The Company recorded a provision for income taxes of \$472,000 in the third quarter of fiscal 2001, as compared to \$312,000 in the third quarter of fiscal 2000.

FIRST NINE MONTHS OF FISCAL 2001 (ENDED NOVEMBER 30, 2000) COMPARED TO FIRST NINE MONTHS OF FISCAL 2000 (ENDED NOVEMBER 30, 1999)

The Company reported net income of \$6.7 million, or \$0.48 per share, for the first nine months of fiscal 2001, as compared to \$2.7 million, or \$0.20 per share, for the nine months ended November 30, 1999. Net income included an extraordinary gain of \$1.5 million, or \$0.10 per share, for the nine months ended November 30, 2000, as compared to \$200,000, or \$0.02 per share, for the nine months ended November 30, 1999, as a result of the retirement of debt at less than face value.

Sales of homes and land including unconsolidated joint ventures were \$285.5 million for the first nine months of fiscal 2001 compared to \$214.9 million for the first nine months of fiscal 2000. On a consolidated basis, sales of homes and land increased from \$192.8 million to \$245.8 million for the respective quarters. These increases are due to an increase in home closings from 902 units to 905 units between periods, an increase in average sales price per unit from

## Edgar Filing: CAPITAL PACIFIC HOLDINGS INC - Form 10-Q

\$229,000 to \$285,000 and the closing of certain land sales in the current year. The Company closed a total of 33 homes in unconsolidated joint ventures in the nine months ended November 30, 2000, as compared to 21 homes during the first nine months of fiscal 2000.

The Company's actual gross margin increased from 19.7% for the first nine months of fiscal 2000 to 23.9% for the first nine months of fiscal 2001. The Company's pro forma gross margin was 24.2% for the first nine months of fiscal 2001 as compared to 20.3% for the first nine months of fiscal 2000. The reason for the increase in the gross margins between periods is due in part to stronger demand in several of the Company's markets in the current year.

10

13

Selling, general and administrative expense of \$27.7 million for the first nine months of fiscal 2001 increased \$7.0 million, or 34.0% as compared to the first nine months of fiscal 2000. As a percentage of revenue, selling, general and administrative expense increased from 10.7% for the first nine months of fiscal 2000 to 11.3% for the first nine months of fiscal 2001, primarily due to development and other activities undertaken in certain projects prior to the generation of revenues.

Income from unconsolidated joint ventures decreased from \$1.9 million in the first nine months of fiscal 2000 to \$13,000 for the nine months ended November 30, 2000. The Company was recording profit participation on the older joint ventures which reported closings in fiscal 2000, while the profits on the newer joint ventures with closings to date in fiscal 2001 are primarily allocated to cover preferred return on the partners' invested capital.

Interest and other income increased from \$498,000 in the first nine months of fiscal 2000 to \$1.4 million in the first nine months of fiscal 2001.

Minority interest of \$2.8 million and \$1.4 million for the nine months ended November 30, 2000 and 1999, respectively, primarily represents the share of CPH LLC's income attributable to CHF.

Interest incurred for the first nine months of fiscal 2001 was \$19.6 million, as compared to \$16.8 million for the first nine months of fiscal 2000. Interest expensed was \$23.0 million for the first nine months of fiscal 2001 compared to \$14.8 million in the first nine months of fiscal 2000.

The Company recorded a provision for income taxes of \$1.3 million for the first nine months of fiscal 2001, as compared to \$846,000 for the first nine months of fiscal 2000.

### LIQUIDITY AND CAPITAL RESOURCES

At the current time, all material financing transactions and arrangements are incurred either by CPH LLC or by certain project specific entities. As of November 30, 2000, the Company has in place several credit facilities totaling \$246 million (the "Facilities") with various bank lenders (the "Banks"), of which \$125 million was outstanding. The Facilities are secured by liens on various completed or under construction homes and lots held by CPH LLC and certain consolidated joint ventures. Pursuant to the Facilities, CPH LLC is subject to certain covenants, which require, among other things, the maintenance of a consolidated liabilities to net worth ratio, minimum liquidity, minimum net worth and loss limitations, all as defined in the documents that evidence the Facilities. At November 30, 2000, CPH LLC and the consolidated joint ventures were in compliance with these covenants. The Facilities also define certain events that constitute events of default. As of November 30, 2000, no such event had occurred. Commitment fees are payable annually on some of the Facilities.

## Edgar Filing: CAPITAL PACIFIC HOLDINGS INC - Form 10-Q

Homebuilding activity is being financed out of CPH LLC cash, bank financing, and the existing joint ventures, including joint ventures with institutional investors, including CHF, the investor in CPH LLC. In addition, development work undertaken in certain of the Company's joint ventures is financed through various non-recourse lending arrangements. The Company anticipates that it will continue to utilize both third party financing and joint ventures to cover financing needs in excess of internally generated cash flow.

In May, 1994 the Company completed the sale of \$100 million of 12 3/4% Senior Notes ("Senior Notes") including 790,000 warrants to purchase common stock. The proceeds from the offering were used to repay certain debt of the Company, acquire certain properties and for general working capital and construction purposes. The obligations associated with the Senior Notes have been transferred from the Company to CPH LLC. The Senior Notes mature in May, 2002. As of November 30, 2000, Senior Notes with a face value of \$44.4 million have been repurchased by the Company. In addition, 176,739 warrants have been repurchased.

The indenture to which the Senior Notes are subject (the "Indenture") contains restrictions on CPH LLC on the incurring of indebtedness, which affect the availability of the Facilities based on various measures of the financial performance of CPH LLC. Subject to such restrictions, the Facilities are available to augment cash flow from operations and joint venture financing to fund CPH LLC's operations.

11

14

Management expects that cash flow generated from operations and from additional financing permitted by the terms of the Indenture will be sufficient to cover the debt service and to fund CPH LLC's current development and homebuilding activities for the reasonably foreseeable future, and expects that capital commitments from its joint venture partners and other bank facilities will provide sufficient financing for the operation of its joint ventures.

### MARKET RISK EXPOSURE

The "Market Risk Exposure" paragraphs are presented to provide an update about material changes to the "Quantitative and Qualitative Disclosures about Market Risk" paragraphs included in the Company's 2000 Annual Report on Form 10-K filed with the Securities and Exchange Commission and should be read in conjunction with those paragraphs.

The Company is exposed to market risks related to fluctuations in interest rates on its debt. The Company does not use interest rate swaps, forward or option contracts on foreign currencies or commodities, or other types of derivative financial instruments.

The Company uses debt financing primarily for the purpose of acquiring and developing land and constructing and selling homes. Historically, the Company has made short-term borrowings under its revolving credit facilities to fund those expenditures. In addition, the Company has previously issued \$100 million in fixed-rate Senior Notes to provide longer-term financing. At November 30, 2000, \$55.6 million of the Senior Notes remain outstanding.

For fixed rate debt, changes in interest rates generally affect the fair market value, but not the Company's earnings or cash flows. Conversely, for variable rate debt, changes in interest rates generally do not impact fair market value, but do affect the Company's future earnings and cash flows. The Company does not have an obligation to prepay fixed rate debt prior to maturity,

## Edgar Filing: CAPITAL PACIFIC HOLDINGS INC - Form 10-Q

and as a result, interest rate risk and changes in fair market value should not have a significant impact on such debt until the Company would be required to refinance such debt. Based upon the amount of variable rate debt outstanding at the end of the current quarter, and holding the variable rate debt balance constant, each one percentage point increase in interest rates occurring on the first day of an annual period would result in an increase in interest incurred for the coming year of approximately \$1.2 million.

The Company does not believe that future market interest rate risks related to its debt obligations will have a material impact on the Company's financial position, results of operations or liquidity.

### PART II -- OTHER INFORMATION

#### ITEM 5. OTHER INFORMATION

CHF filed with the SEC an amendment to its Schedule 13D on November 7, 2000 to reflect its interest in acquiring, in exchange for a reduction in its holdings in CPH, LLC, the Company's interests in the majority of the unconsolidated entities listed in footnote 4 to the financial statements included in Item 1 of this report. Discussions between the Company and CHF are ongoing with respect to CHF's expression of interest. There can be no assurance that any transaction will be entered into. If such a transaction is entered into, the Company will make a separate detailed disclosure at the appropriate time.

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None Filed

(b) Reports on Form 8-K

None Filed

12

15

### SIGNATURES

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

Date: January 16, 2001

By: /s/ HADI MAKARECHIAN

-----  
Hadi Makarechian  
Chairman of the Board,  
Chief Executive Officer and President  
(Principal Executive Officer)

Date: January 16, 2001

By: /s/ STEVEN O. SPELMAN, JR.

-----  
Steven O. Spelman, Jr.  
Chief Financial Officer and Corporate Secretary  
(Principal Financial Officer)

13