CAPITAL PACIFIC HOLDINGS INC
Form 10-Q
January 14, 2002

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, 2001

[ ] 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	95-2956559
(State or other jurisdiction of incorporation or organization)	(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 31, 2001
Common Stock, $.10 Par Value	13,665,111
Non-Voting Common Stock, $.10 Par Value	1,235,000

CAPITAL PACIFIC HOLDINGS, INC.

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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CAPITAL PACIFIC HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS)

	NOVEMBER 30, 2001	FEBRUARY 28, 2001
	(UNAUDITED)	

ASSETS

Cash and cash equivalents	$ 12,182	$ 7,552
Restricted cash	801	781
Accounts and notes receivable	14,336	25,082
Real estate projects	230,333	259,873
Property and equipment	419	--
Investment in and advances to unconsolidated joint ventures	7,972	5,273
Prepaid expenses and other assets	13,632	10,851
Total assets	$ 279,675	$ 309,412

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable and accrued liabilities	$ 27,741	$ 43,150
Notes payable	152,559	110,223
Senior unsecured notes payable	--	55,592
Total liabilities	180,300	208,965
Negative goodwill	8,789	9,924
Minority interest	--	7,743
Stockholders' equity:		
Common stock, par value $.10 per share, 60,000,000 shares authorized; 16,230,000 and 14,995,000 shares issued; 14,900,111 and 13,767,311 shares outstanding, respectively	1,623	1,500
Additional paid-in capital	216,853	211,888
Accumulated deficit	(123,537)	(127,054)
Treasury stock	(3,898)	(3,554)
Accumulated other comprehensive income (loss)	(455)	--
Total stockholders' equity	90,586	82,780
Total liabilities and stockholders' equity	$ 279,675	$ 309,412

See accompanying notes to financial statements.

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,	
	2001	2000	2001	2000
Sales of homes and land	$60,209	$84,583	$218,909	$245,832

Cost of sales	46,074	63,145	164,963	187,113
Gross margin	14,135	21,438	53,946	58,719
Income from unconsolidated joint ventures	446	56	304	13
Selling, general and administrative expenses	(7,594)	(9,183)	(27,780)	(27,725)
Interest expense	(5,698)	(9,454)	(21,352)	(23,013)
Interest and other income, net	271	364	1,221	1,376
Income from operations	1,560	3,221	6,339	9,370
Minority interest	--	(990)	(159)	(2,836)
Income before income taxes and extraordinary item	1,560	2,231	6,180	6,534
Provision for income taxes	688	472	2,663	1,332
Income before extraordinary item	872	1,759	3,517	5,202
Extraordinary gain for debt retired at less than face value, net of minority interest and taxes	--	71	--	1,461
Net income	$ 872	$ 1,830	$ 3,517	$ 6,663
Net income per share -- basic and diluted:				
Income per share before extraordinary item	$ 0.06	$ 0.13	$ 0.24	$ 0.38
Extraordinary gain for debt retired at less than face value, net of minority interest and taxes	--	--	--	0.10
Net income per share	$ 0.06	$ 0.13	$ 0.24	$ 0.48
Weighted average number of common shares --basic	14,913	13,768	14,530	13,775
Weighted average number of common shares -- diluted	15,129	13,904	14,761	13,885

See accompanying notes to financial statements.

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CAPITAL PACIFIC HOLDINGS, INC. AND SUBSIDIARIES

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

	FOR THE NINE MONTHS ENDED NOVEMBER 30,	
	2001	2000
Cash flows from operating activities:		
Net income	$ 3,517	$ 6,663
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gain on retirement of senior unsecured notes payable	--	(1,461)
Depreciation and amortization	142	1,124
Accretion of negative goodwill	(1,528)	--
Change in restricted cash	(20)	516

Decrease in real estate projects	29,540	6,653
Decrease in receivables, prepaid expenses and other assets	7,965	1,197
Increase (decrease) in accounts payable and accrued liabilities	(17,925)	494
Minority interest	159	2,836
Net cash provided by (used in) operating activities	21,850	18,022
Cash flows from investing activities:		
Purchases of property and equipment, net	(921)	(694)
Distributions to minority interest	--	(365)
Increase in investment in and advances to unconsolidated joint ventures	(2,699)	(2,880)
Net cash provided by (used in) investing activities	(3,620)	(3,939)
Cash flows from financing activities:		
Borrowings on notes payable, net	42,336	3,221
Retirement of senior unsecured notes payable	(55,592)	(29,650)
Repurchase of common stock	(344)	(256)
Net cash provided by (used in) financing activities	(13,600)	(26,685)
Net increase (decrease) in cash and cash equivalents	4,630	(12,602)
Cash and cash equivalents at beginning of period	7,552	19,389
Cash and cash equivalents at end of period	$ 12,182	$ 6,787

Non-Cash Activities:

During the nine month period ended November 30, 2001, the Company issued 1,235,000 shares of non-voting common stock to CHF in return for CHF's remaining 7% interest in CPH LLC in connection with the Exchange Transaction described in Note 3 to the financial statements. Below is a summary of amounts recorded as a result of this transaction:

Minority interest acquired	$ 7,902
Issuance of non-voting common stock	(5,088)
Deferred income taxes and accrued expenses recorded	(2,061)
Adjustment of remaining property and equipment to zero	(360)
Negative goodwill recorded	(393)
	$ --

See accompanying notes to financial statements.

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 accounting principles generally accepted in the United States. 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 28, 2001, 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 three and nine month periods ended November 30, 2001, are not necessarily indicative of the results that may be expected for the year ending February 28, 2002. 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"). 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 the current year presentation.

3. COMPANY ORGANIZATION AND OPERATIONS

The Company is a regional builder and developer with operations throughout selected metropolitan areas of Southern California, Texas, Arizona, Colorado and, until recently, Nevada. The Company's principal business activities are to build and sell single-family homes. The Company's single-family homes are targeted to entry-level, move-up and luxury buyers.

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. An unaffiliated investment company, California Housing Finance, L.P. ("CHF") then acquired a 32.07% minority interest in CPH LLC as a result of a cash investment in CPH LLC. From fiscal 1998 through fiscal 2001, the Company expanded its operating strategy to encompass the acquisition and development of commercial and mixed-use projects, as well as ownership of existing commercial properties, primarily through non-majority investments in limited liability companies, with approximately 99% of the capital for these projects being provided by CHF.

Effective February 23, 2001, the Company and CHF consummated an interest exchange transaction (the "Exchange Transaction"), whereby the Company exchanged its interests in the majority of the joint ventures capitalized by CHF, including certain entities which were previously consolidated, (the "Divested Joint Ventures") for approximately 78% of CHF's interest in CPH LLC and all of CHF's interests in certain residential joint ventures. At February 28, 2001, and during the three month period ended May 31, 2001, the Company had a 93% interest in CPH LLC and CHF held a 7% minority interest. The Company and CHF both had an option to convert CHF's remaining 7% interest in CPH LLC into 1,235,000 shares of non-voting Common Stock of the Company at the equivalent of approximately $6.40 per share. This option was exercised by the Company on May 31, 2001, thus, as of this date, the Company owned 100% of CPH LLC. In addition, Capital Pacific Homes, Inc., a subsidiary of the Company, has entered into construction, management and marketing agreements relating to certain of the Divested Joint Ventures with residential components, (the "Managed Projects"), whereby the Company is compensated for performing such services through a management fee arrangement. As a result of the Exchange Transaction, the Company has no further exposure to the market or entitlement risks associated with the Managed Projects.

The Exchange Transaction was accounted for as the simultaneous acquisition of CHF's minority interest in CPH LLC and certain other residential joint ventures and the disposition of the Company's interest in the Divested Joint Ventures. As a result, no gain was initially recognized, the remaining balance of the Company's property and equipment was adjusted to zero at February 28, 2001, and again at May 31, 2001, and the balance of the transaction was recorded as negative goodwill. Negative goodwill in the total initial amount of $9.9 million represents the positive difference between the Company's basis in the assets acquired in the Exchange Transaction as compared to the assets which were divested. Negative goodwill is being accreted over five years, which accretion is included as a reduction in selling, general and administrative expenses. As further discussed in footnote 9 below, due to a recently promulgated change in accounting principles, the expected remaining $8.3 million in unaccreted negative goodwill as of February 28, 2002 will increase net income in the first quarter of fiscal 2003 through a cumulative effect of change in accounting principle.

Assets under management, including assets owned by unconsolidated joint ventures and Managed Projects, totaled $515 million at November 30, 2001 in 50 residential projects. At November 30, 2001, CPH LLC, which is now 100% owned by the Company, had $240 million in assets and a net worth of $107 million. The Company and its subsidiaries perform their respective management functions for CPH LLC and the Managed Projects, pursuant to management agreements, which include provisions for the reimbursement of Company and subsidiary costs and a management fee. CPH LLC, the Managed Projects and certain other project-specific entities indemnify the Company against liabilities arising from the projects owned by such entities. The Company maintains certain licenses and other assets as is necessary to fulfill its obligations as managing member and under management agreements.

References to the Company are, unless the context indicates otherwise, also references to CPH LLC and the project-specific entities in which the Company has an equity ownership interest. 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 AND ADVANCES TO UNCONSOLIDATED ENTITIES

The Company is a general partner or a direct or indirect managing member and has a 50 percent or lesser ownership in 14 unconsolidated entities at November 30, 2001. The Company's net investment in and advances to unconsolidated entities are as follows at November 30, 2001 and February 28, 2001 (in thousands):

	NOVEMBER 30, 2001	FEBRUARY 28, 2001
Unconsolidated Joint Ventures:		
JMP Canyon Estates, L.P.	$ 113	$ 162
JMP Harbor View, L.P.	320	609
Grand Coto Estates, L.P.	508	231
M.P.E. Partners, L.P.	904	983
LB/L -- CPH Providence, LLC	1,073	715
LB/L -- CPH Longmont, LLC	910	1,087
LB/L -- CPH Laguna Street, LLC	832	--
CPH Daily Ranch, L.P.	3,080	--
CPH Banning-Lewis Ranch, LLC	55	--
Other	140	--
	7,935	3,787
Divested Joint Ventures	37	1,486
	$7,972	$5,273

The Company's ownership interest in the unconsolidated joint ventures varies. Generally, the Company receives a portion of any 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 terms in each venture's agreement. In the case of Divested Joint Ventures which are also Managed Projects, the Company or its subsidiaries manage the development of the project under a management contract. The Company's carrying amount in each of the unconsolidated joint ventures (and the Divested Joint Ventures prior to the Exchange Transaction) equals the underlying equity in the joint venture, 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 the unconsolidated 50 percent or less owned entities. The accounting policies of the entities are substantially the same as those of the Company.

Following is summarized, combined financial information for the unconsolidated entities at November 30, 2001 and February 28, 2001 and for the three and nine month periods ended November 30, 2001 and November 30, 2000 (in thousands). The balance sheet information at both dates and the income statement information for the period ended November 30, 2001 does not include the Divested Joint Ventures, but the income statement information for the three and nine month periods ended November 30, 2000 does reflect the results of the Divested Joint Ventures because the Company held an ownership interest in those entities during that period. This information includes in each case the interest of all equity owners of the entities, not just that of the Company and its subsidiaries.

ASSETS

	NOVEMBER 30, 2001	FEBRUARY 28, 2001
Cash	$ 456	$ 512
Real estate projects	93,635	14,620
Other assets	542	611
	$94,633	$15,743

LIABILITIES AND EQUITY

	NOVEMBER 30, 2001	FEBRUARY 28, 2001
Accounts payable and other liabilities	$ 5,965	$ 4,167
Notes payable	5,817	1,878
	11,782	6,045
Equity	82,851	9,698
	$94,633	$15,743

INCOME STATEMENT

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	NOVEMBER 30, 2001	NOVEMBER 30, 2000	NOVEMBER 30, 2001	NOVEMBER 30, 2000
Sales of homes and land	$4,937	$11,577	$7,905	$39,699
Interest and other income, net	2	4,437	20	10,198
	4,939	16,014	7,925	49,897
Costs and expenses	4,633	8,529	7,336	40,629
Net income	$ 306	$ 7,485	$ 589	$ 9,268

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CAPITAL PACIFIC HOLDINGS, INC., AND SUBSIDIARIES

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

5. NOTES PAYABLE

Notes payable at November 30, 2001 and February 28, 2001, are summarized as follows (in thousands):

	NOVEMBER 30, 2001	FEBRUARY 28, 2001
Senior unsecured revolving credit facility, bearing interest varying from LIBOR to prime, as selected by the Company, plus applicable margins	$112,658	$ --
Notes payable to banks, including interest varying from prime plus one quarter percent to LIBOR plus three and one half percent, maturing between March 31, 2002 and November 30, 2003, secured by certain real estate projects on a non-recourse basis	37,802	88,272
Notes payable to banks, including interest at prime, secured by certain real estate projects on a recourse basis, refinanced during the quarter via the revolving credit facility	--	16,158
Other	2,099	5,793
	$152,559	$110,223

During the third quarter of fiscal 2002, CPH LLC entered into a senior unsecured revolving credit facility with several participant banks. The facility has a maximum commitment of $125 million and a two year revolving term. Proceeds from this facility were used to pay down CPH LLC's existing facilities and retire the remaining $55.6 million of Senior Notes at face value. In addition, the Company fixed the interest rate on $50 million and $25 million of borrowings at 5.68% and 5.65%, respectively, until September 2003 through interest rate swap agreements with a bank.

6. NET INCOME PER COMMON SHARE

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, 2001			NOVEMBER 30, 2000		
	INCOME	SHARES	EPS	INCOME	SHARES	EPS
Basic net income per share:						
Income available to common stockholders before extraordinary item	$ 872	14,913	$0.06	$1,759	13,768	$0.13
Effect of dilutive securities:						
Warrants	--	35	--	--	--	--

	INCOME	SHARES	EPS	INCOME	SHARES	EPS
Stock options	--	181	--	--	136	--
Diluted net income per share before extraordinary item	$ 872	15,129	$0.06	$1,759	13,904	$0.13

CAPITAL PACIFIC HOLDINGS, INC., AND SUBSIDIARIES

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

	NINE MONTHS ENDED					
	NOVEMBER 30, 2001			NOVEMBER 30, 2000		
	INCOME	SHARES	EPS	INCOME	SHARES	EPS
Basic net income per share:						
Income available to common stockholders before extraordinary item	$3,517	14,530	$0.24	$5,202	13,775	$0.38
Effect of dilutive securities:						
Warrants	--	44	--	--	--	--
Stock options	--	187	--	--	110	--
Diluted net income per share before extraordinary item	$3,517	14,761	$0.24	$5,202	13,885	$0.38

7. COMMON STOCK REPURCHASE PROGRAM

The Company has a stock repurchase program in place whereby up to 1,000,000 shares of the Company's outstanding common stock may be repurchased. As of November 30, 2001, 640,400 shares have been repurchased cumulatively under this program. In addition, the Company has repurchased 248,511 of the warrants originally issued in connection with the issuance of the Senior Notes.

8. COMPREHENSIVE INCOME AND IMPLEMENTATION OF SFAS NO. 133

Effective March 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended. SFAS 133 establishes accounting and reporting standards for derivative instruments and for hedging activities by requiring that all derivatives be recognized in the balance sheet and measured at fair value. The Company's policy is to designate at a derivative's inception the specific assets, liabilities, or future commitments being hedged and monitor the derivative to determine if it remains an effective hedge.

The Company has various interest rate swap agreements which effectively fix the variable interest rate on a notional amount of $75 million of the senior unsecured revolving credit facility related to its homebuilding operations. The swap agreements have been designated as cash flow hedges and, accordingly, are reflected at their fair value in the consolidated balance sheet at November 30, 2001. The unrealized loss, as of November 30, 2001, of $455,000 is recorded in stockholders' equity as accumulated other comprehensive loss.

Amounts to be received or paid as a result of the swap agreements are recognized as adjustments to interest incurred on the related debt instruments. The Company believes that there will be no ineffectiveness related to the interest rate swaps and therefore no portion of the accumulated other comprehensive loss would be reclassified into future earnings. The net effect on the Company's operating results is that interest on the variable-rate debt being hedged is recorded based on fixed interest rates.

9. RECENT ACCOUNTING PRONOUNCEMENT

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"). This Statement addresses financial accounting and reporting for business combinations and supersedes APB Opinion No. 16, "Business Combinations," and FASB Statement No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." All business combinations in the scope of this Statement are to be accounted for using one method, the purchase method. The Company will adopt SFAS 141 for all business combinations initiated after June 30, 2001.

Also in June 2001, the FASB issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, "Intangible Assets." This pronouncement addresses, among other things, how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. Goodwill will no longer be amortized but will be assessed at least annually for impairment using a fair value methodology. The Company will adopt this statement for all goodwill and other intangible assets acquired after June 30, 2001 and for all existing goodwill and other intangible assets beginning March 1, 2002. Upon adoption of this standard on March 1, 2002 the Company is required to accrete the remaining balance of negative goodwill through a cumulative effect of change in accounting principle, which will increase net income in fiscal 2003 by approximately $8.3 million, or approximately $0.55 per diluted share. Other than the accretion of the remaining negative goodwill, the Company does not anticipate that the adoption of SFAS 142 will have a significant effect on the Company's financial position or results of operations.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that Opinion). The provisions of SFAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, with early application encouraged and generally are to be applied prospectively. The Company does not expect the adoption of SFAS 144 to have a material impact on the Company's financial position or results of operations.

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, uncertainty arising from acts of terrorism and similar factors, 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 summarizes the results of the Company's operations for the three and nine months ended November 30, 2001 and 2000.

RESULTS OF OPERATIONS
(AMOUNTS IN THOUSANDS)

	THREE MONTHS ENDED	
	NOVEMBER 30, 2001	NOVEMBER 30, 2000
Sales of homes and land	$60,209	$84,583
Cost of sales	46,074	63,145
Gross margin	$14,135	$21,438

	NINE MONTHS ENDED	
	NOVEMBER 30, 2001	NOVEMBER 30, 2000

Sales of homes and land	$218,909	$245,832
Cost of sales	164,963	187,113
Gross margin	$ 53,946	$ 58,719

In addition to the results shown above, the Company was responsible for the following activity in certain Managed Projects (including the Divested Joint Ventures) for the three and nine months ended November 30, 2001 and 2000:

MANAGED AND DIVESTED OPERATIONS
(DOLLAR AMOUNTS IN THOUSANDS)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	NOVEMBER 30, 2001	NOVEMBER 30, 2000	NOVEMBER 30, 2001	NOVEMBE 200
Number of managed projects	3	3	3	
Unit closings	7	10	18	
Revenues	$14,005	$11,578	$32,647	$39,7

Over the past year, the Company has:

- shed its non-core commercial and resort development business to focus on homebuilding;

- substantially reduced its leverage (debt as a proportion of capital) year over year, including by exiting the underperforming Las Vegas market; and

- called or repurchased $100 million in 12 3/4% Senior Notes and substantially reduced its borrowing costs.

As a result of this restructuring, which is now complete, as well as through earnings, the Company has increased stockholder's equity by $13.3 million since November 30, 2000, from $77.3 million to $90.6 million. As the financial statement effects of the restructuring are fully realized, stockholders' equity will further increase by the remaining $8.8 million in negative goodwill generated by the disposition of the Company's non-core assets.

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 but excluding the Divested Joint Ventures:

	THREE MONTHS ENDED	NINE MONTHS ENDED

	NOVEMBER 30, 2001	NOVEMBER 30, 2000	NOVEMBER 30, 2001	NOVEMBE 200
New homes delivered:				
California	24	20	66	
Texas	56	88	230	
Nevada	--	46	68	
Arizona	52	50	137	
Colorado	31	46	99	
Subtotal	163	250	600	
Unconsolidated Joint Ventures (California)	18	--	29	
Total homes delivered	181	250	629	
Lot deliveries	59	133	135	
Total homes and lots delivered	240	383	764	1
Net new orders	181	280	509	
Average home sales price:				
California	$776,000	$1,402,000	$975,000	$1,475
Texas	266,000	222,000	250,000	195
Nevada	--	204,000	235,000	208
Arizona	156,000	162,000	155,000	160
Colorado	245,000	222,000	232,000	204
Combined	348,000	307,000	335,000	251

The following table shows backlog in units and dollars at November 30, 2001 and 2000 for each of the Company's operations, including unconsolidated joint ventures but excluding backlog of the Divested Joint Ventures:

	ENDING BACKLOG			
	NOVEMBER 30, 2001		NOVEMBER 30, 200	
	UNITS	($000S)	UNITS	($000S
California	88	$43,767	74	$ 92,42
Texas	111	31,648	272	70,00
Nevada	--	--	50	13,00
Arizona	40	5,635	101	14,90
Colorado	52	10,132	144	22,00
Total	291	$91,182	641	$212,32

THIRD QUARTER OF FISCAL 2002 (ENDED NOVEMBER 30, 2001) COMPARED TO THIRD QUARTER OF FISCAL 2001 (ENDED NOVEMBER 30, 2000)

The Company reported net income of $872,000, or $0.06 per share, in the third quarter of fiscal 2002, as compared to net income of $1.8 million, or $0.13 per share, in the third quarter of fiscal 2001. Income for the quarter ended November 30, 2000 included an extraordinary gain of $71,000, or less than one cent per share,

as a result of the retirement of debt at less than face value. Excluding the extraordinary gain, operating net income decreased from $1.8 million in the third quarter of fiscal 2001 to $872,000 in the corresponding quarter of fiscal 2002. As further discussed below, the decrease in net income was due to a variety of factors, including the Company's decision to exit the Nevada market, a higher effective tax rate and decreased demand in certain of the Company's markets.

On a consolidated basis, sales of homes and land decreased to $60.2 million for the third quarter of fiscal 2002 compared to $84.6 million for the third quarter of fiscal 2001. This decrease is due to a decrease in total home and lot closings, partially offset by an increase in the Company's average sales price per home to $348,000 in the third quarter of fiscal 2002 from $307,000 in the third quarter of fiscal 2001. Sales of homes and land including unconsolidated joint ventures, but excluding Divested Joint Ventures, decreased to $65.1 million from $84.6 million for the respective quarters. Total home closings decreased from 250 in the third quarter of fiscal 2001 to 181 in the third quarter of fiscal 2002, including zero and 18 homes, respectively, closed in unconsolidated joint ventures. The decrease in the Company's backlog from 641 units to 291 units between quarters is primarily due to a decrease in demand in certain of the Company's markets and to a lesser extent, the reduction in backlog units in Nevada in connection with the Company's exit from that market. In addition, the number of actively selling projects has decreased from 27 at November 30, 2000 to 20 at November 30, 2001, which affected both backlog and net new orders. The Company anticipates opening between 8 and 10 new communities over the next few quarters.

The Company's gross margin on home and lot closings decreased to 23.5% for the third quarter of fiscal 2002 as compared to 25.3% for the third quarter of fiscal 2001. This decrease is due to a more competitive environment in some of the Company's markets and the close out of certain less-profitable projects in the current quarter.

As a percentage of revenue, selling, general and administrative expense increased from 10.9% for the third quarter of fiscal 2001 to 12.6% for the third quarter of fiscal 2002. Selling, general and administrative expense of $7.6 million for the third quarter of fiscal 2002 decreased $1.6 million or 17.3% as compared to the third quarter of fiscal 2001 due principally to a reduction in overhead associated with certain projects in which the Company is no longer active. The increased percentage of such expense compared to revenue is primarily due to a lower level of sales activity.

Income from unconsolidated joint ventures increased from $56,000 in the third quarter of fiscal 2001 to $446,000 in the third quarter of fiscal 2002, due to an increased level of profit participation in the active joint ventures in the current quarter.

Interest and other income decreased from $364,000 in the third quarter of fiscal 2001 to $271,000 in the third quarter of fiscal 2002.

Minority interest of $1.0 million for the third quarter of fiscal 2001 primarily represents the share of CPH LLC's income attributable to CHF. Due to the fact that CHF no longer holds an ownership interest in CPH LLC, no minority interest was recorded in the current quarter.

Interest incurred was $3.5 million in the third quarter of fiscal 2002, as compared to $6.6 million in the third quarter of fiscal 2001, while interest expensed was $5.7 million during the third quarter of fiscal 2002, as compared to $9.5 million in the third quarter of fiscal 2001. Once the Company sells out of certain older projects, it anticipates that interest expensed will be closer to its currently lower level of interest incurred.

The Company recorded a provision for income taxes of $688,000 in the third quarter of fiscal 2002, utilizing an effective tax rate of 44 percent, as compared to $472,000 in the third quarter of fiscal 2001, with an effective tax rate of 21 percent. The increase in the effective tax rate was due primarily to the utilization of the remaining net operating loss carryforwards during fiscal 2001.

FIRST NINE MONTHS OF FISCAL 2002 (ENDED NOVEMBER 30, 2001) COMPARED TO FIRST NINE MONTHS OF FISCAL 2001 (ENDED NOVEMBER 30, 2000)

The Company reported net income of $3.5 million, or $0.24 per share, for the first nine months of fiscal 2002, as compared to $6.7 million, or $0.48 per share, for the nine months ended November 30, 2000. Net income for the nine months ended November 30, 2000 included an extraordinary gain of $1.5 million, or $0.10 per share, as a result of the retirement of debt at less than face value. Excluding the extraordinary gain, operating net income decreased from $5.2 million for the nine months ended November 30, 2000 to $3.5 million for the nine months ended November 30, 2001.

On a consolidated basis, sales of homes and land decreased from $245.8 million to $218.9 million for the respective quarters. Sales of homes and land including unconsolidated joint ventures, but excluding Divested Joint Ventures, were $226.8 million for the first nine months of fiscal 2002 compared to $245.8 million for the first nine months of fiscal 2001. The Company closed a total of 29 homes in unconsolidated joint ventures in the nine months ended November 30, 2001, as compared to zero homes during the first nine months of fiscal 2001. These amounts were impacted by a decrease in home closings from 872 units to 629 units between periods, an increase in average sales price per unit from $251,000 to $335,000 and the closing of certain land sales totaling 450 lots and $14.2 million in the prior year.

The Company's gross margin increased from 23.9% for the first nine months of fiscal 2001 to 24.6% for the first nine months of fiscal 2002. The reason for the increase in the gross margins between periods is due in part to stronger demand in certain of the Company's markets in the first half of the current year combined with an overall shift in mix to more profitable projects.

Selling, general and administrative expense of $27.8 million for the first nine months of fiscal 2002 remained consistent with $27.7 million for the first nine months of fiscal 2001. As a percentage of revenue, selling, general and administrative expense increased from 11.3% for the first nine months of fiscal 2001 to 12.7% for the first nine months of fiscal 2002, primarily due to slightly lower sales volume combined with development and other activities undertaken in certain projects prior to the generation of revenues as well as certain additional expenses recorded in connection with the Exchange Transaction.

Income from unconsolidated joint ventures increased from $13,000 in the first nine months of fiscal 2001 to $304,000 for the nine months ended November 30, 2001, due to an increased level of profit participation in the active joint ventures in the current period.

Interest and other income was $1.2 million for the first nine months of fiscal 2002, as compared to $1.4 million for the first nine months of fiscal

2001.

Minority interest of $159,000 for the first nine months of fiscal 2002 and $2.8 million for the nine months of fiscal 2001 primarily represents the share of CPH LLC's income attributable to CHF. The decrease between years is due to the lower percentage ownership in CPH LLC held by CHF during fiscal 2002 as compared to fiscal 2001, which ownership ended on May 31, 2001.

Interest incurred for the first nine months of fiscal 2002 was $12.6 million, as compared to $19.6 million for the first nine months of fiscal 2001. Interest expensed was $21.4 million for the first nine months of fiscal 2002 compared to $23.0 million in the first nine months of fiscal 2001. Once the Company sells out of certain older projects, it anticipates that interest expensed will be closer to its currently lower level of interest incurred.

The Company recorded a provision for income taxes of $2.7 million for the first nine months of fiscal 2002, as compared to $1.3 for the first nine months of fiscal 2001. The increase in the effective tax rate was due primarily to the utilization of the remaining net operating loss carryforwards during fiscal 2001.

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. During the third quarter of fiscal 2002, CPH LLC entered into a senior unsecured revolving credit facility ("the Senior Facility") with several participant banks. The facility has a maximum commitment of $125 million and a two year revolving term. Proceeds from this facility

were used to pay down CPH LLC's existing facilities and retire the remaining Senior Notes during the quarter ending November 30, 2001, as discussed below. The new credit facility has substantially more favorable pricing than the Senior Notes which have been retired.

As of November 30, 2001, the Company has in place several credit facilities, including the Senior Facility, totaling $215 million (the "Facilities") with various bank lenders (the "Banks"), of which approximately $150 million was outstanding. The Facilities other than the Senior Facility are secured by liens on various completed or under construction homes and lots held by CPH LLC, CPH Newport Coast, LLC and CPH Yucaipa I, LLC, which are consolidated subsidiaries. Pursuant to the Facilities, the Company 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, 2001, the Company was in compliance with these covenants. The Facilities also define certain events that constitute events of default. As of November 30, 2001, no such event had occurred. Commitment fees are payable annually on some of the Facilities. Neither the Company nor CPH LLC has any financial exposure under any of the project-specific facilities entered into by the Divested Joint Ventures.

Homebuilding activity is being financed out of CPH LLC cash, bank financing, and the existing joint ventures, including joint ventures with institutional investors. 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 were transferred from the Company to CPH LLC. Prior to the third quarter of fiscal 2002, the Company had repurchased Senior Notes with a face value of $44.4 million. During the third quarter of fiscal 2002, the Company redeemed at face value the remaining $55.6 million of Senior Notes.

Management expects that cash flow generated from operations and from bank financing 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 2001 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. Under the new credit facility, the Company utilized interest rate swaps in order to fix the interest rate on $75 million of its variable rate debt. The Company has not used 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. Prior to the third quarter of fiscal 2002, the Company had repurchased Senior Notes with a face value of $44.4 million. During the third quarter of fiscal 2002, the Company redeemed at face value the remaining $55.6 million of the Senior Notes.

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 have an

impact on 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, 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 third 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 $700,000.

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 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None Filed.

(b) Reports on Form 8-K

None Filed.

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.

By: /s/ HADI MAKARECHIAN

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

Date: January 14, 2002

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

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

Date: January 14, 2002