CAPITAL PACIFIC HOLDINGS INC
Form 10-K/A
June 17, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended February 28, 2002

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)	*(IRS Employer Identification Number)*
4100 MacArthur Blvd., Suite 200 Newport Beach, California	**92660**
(Address of principal executive offices)	*(Zip Code)*

(949) 622-8400

(Registrant s telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock $0.10 Par Value

(Title of Each Class)

The American Stock Exchange

(Name of Each Exchange on Which Registered)

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

At May 15, 2002, the aggregate market value of the voting stock held by persons other than the directors, executive officers and principal shareholders filing Schedules 13D of the Registrant was $10,286,656 as determined by the closing price on the American Stock Exchange. The basis of this calculation does not constitute a determination by the Registrant that all of its principal shareholders, directors and executive officers are affiliates as defined in Rule 405 under the Securities Act of 1933.

At May 15, 2002, there were 14,940,162 shares of Common Stock outstanding.

Part III incorporates certain information by reference to the Registrant s definitive proxy statement to be filed with the Commission no later than June 28, 2002.

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PART I

Item 1. ***Business***

General

Capital Pacific Holdings, Inc. (CPH, Inc.), together with its subsidiaries (the Company), is a regional homebuilder and developer with operations throughout selected metropolitan areas of California, Texas, Arizona and Colorado. The Company conducts its homebuilding business through its wholly-owned subsidiary Capital Pacific Holdings, LLC (CPH LLC) and through single purpose joint venture entities. Joint venture entities are used principally in circumstances in which a third party provides capital or other financing for a project. In addition to its owned projects, the Company through one of its wholly-owned subsidiaries manages certain homebuilding projects in which it formerly had an equity interest (the Managed Projects). With respect to these Managed Projects, the Company is reimbursed its direct costs and paid a management fee representing an allocation of overhead. CPH, Inc. also conducts certain other activities related to homebuilding, including mortgage brokerage operations, design centers and land development activities, principally through various other subsidiaries and joint ventures. CPH LLC 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 semi-custom luxury buyers. Since 1975, the Company has built and sold over 24,000 homes in the markets it serves. During the fiscal year ended February 28, 2002, the Company (including unconsolidated joint ventures but excluding Managed Projects) closed 1,134 home and lot sales, including 839 homes, at an average home sales price of $346,000. Revenues for the same period (including unconsolidated joint ventures but excluding Managed Projects) totaled $314 million. The Company currently conducts its operations principally under the names Capital Pacific Homes and, in Texas, Clark Wilson Homes, Inc. (Clark Wilson). The Company has continued to diversify its business from the higher-priced California Coastal markets to the more moderate price points offered in its other markets.

Assets under management, including assets owned by unconsolidated joint ventures and Managed Projects, totaled $475 million at February 28, 2002 in 50 residential properties. At February 28, 2002, CPH, Inc. s wholly-owned subsidiary, CPH LLC, had $212 million in assets and a net worth of $109.5 million. CPH LLC, the Managed Projects and certain other project-specific entities indemnify CPH, Inc. and its subsidiaries against liabilities arising from the projects owned by such entities.

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

Strategy

The Company s long-term strategy includes the following key elements:

(1) *Maintaining diversity in its geographic markets.* The Company believes that geographic market diversification is a key element in achieving long-term stability and growth. While the Company has no specific plans to expand outside the California, Texas, Arizona and Colorado markets, it may consider expansion to other markets in the future.

(2) *Diversifying its product.* The Company builds homes targeted for all price segments, from entry-level buyers to the semi-custom luxury market move-up buyers, so that it is able to deliver well-priced homes to a broad segment of its potential customer base. Within Texas, Arizona and Colorado, the Company serves the entry level as well as move-up markets. Within California, the Company has products targeted toward second and third time move-up buyers, as well as the million dollar luxury market. This product diversification enables the Company to adapt to changing market conditions.

(3) *Enhancing the Company s capital base and sources of financial liquidity.* This has been a principal focus of the Company over the past several years. The Company has substantially improved its leverage ratios and reduced its debt costs. In fiscal year 1995, the Company accessed the public debt capital markets through the sale of $100 million of 12 3/4% Senior Notes (Senior Notes) including

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790,000 warrants to purchase common stock (the Offering). The Senior Notes were due May 1, 2002 and have been fully repurchased or redeemed. In fiscal year 2002, CPH, Inc. completed a transaction with its principal financial investor which resulted in a substantial increase in its equity in CPH LLC and the Company s exit from its commercial and mixed-use businesses. This transaction, which is further detailed in Note 1 of the Notes to Consolidated Financial Statements presented herein, was a substantial contributor to CPH LLC s ability to repay its 12 3/4% senior notes and obtain a new $125 million syndicated unsecured loan facility under which CPH LLC experienced average borrowing costs of 5.5% in fiscal year 2002. Credit facilities in place at February 28, 2002 totaled $181 million, of which $109 million was outstanding. During fiscal 2002, the Company repurchased the remaining $55.6 million of the Senior Notes and its wholly-owned subsidiary, CPH LLC, entered into a senior unsecured revolving credit facility with a maximum commitment of $125 million. This has substantially lowered the Company s borrowing costs. The Company believes this financing strategy allows orderly growth and greater flexibility to react quickly to changing market conditions. The Company also utilizes joint ventures within its operations as a source of financing and risk management. The Company is also considering additional sources of financing for the purpose of credit diversification and expansion.

(4) *Controlling costs and maintaining operational efficiency.* The Company has job cost, warranty tracking and construction scheduling systems and other quality control processes to control costs and to reduce the effect of certain risks inherent in the homebuilding industry. The Company has made a substantial investment in its information systems. These systems and controls enable the Company to monitor its operations and improve its efficiencies.

(5) *Minimizing inventory risk.* CPH LLC tries to carefully manage its land and inventory risk in a variety of ways. CPH LLC monitors its supply of owned, optioned and controlled land to maintain an adequate pipeline of building lots in each of its markets while avoiding excess land holdings. For its homebuilding projects, CPH LLC generally prefers to purchase entitled land, generally defined as land that has received all necessary land use approvals for residential development from the appropriate state, county and local governments, typically in parcels of 50 to 250 lots, and makes use of options, seller financing and joint ventures, when available, to reduce its capital commitment on individual projects in order to be in a position to allocate its capital among a larger number of properties. CPH LLC generally tries to limit its speculative building by commencing construction only after some sales have been made and tries to limit the size of each construction phase. CPH LLC generally purchases and holds land in amounts sufficient to support home production and sales over a 24 to 48 month period.

(6) *Land Development.* In certain markets, often in project-specific joint ventures, the Company may purchase unentitled land, with the intention of obtaining the required entitlements and then either selling the unimproved land, developing lots and selling them to other builders or building and selling homes itself. Depending upon the available inventory of entitled land in the Company s markets, the Company s land development activities may vary.

Homebuilding Geographic Markets

At February 28, 2002, the Company, either directly or through joint ventures, including five Managed Projects in which the Company does not have an equity ownership interest, controlled lots in various stages of development with respect to approximately 50 residential projects, including 19 projects located in the Orange, Los Angeles, Santa Barbara and Riverside Counties of California, eight projects located in Austin, Texas, eight projects located in Phoenix, Arizona and 15 projects in the Denver metropolitan and Colorado Springs areas of Colorado. The Company is currently selling homes in 23 of these projects. As detailed in Item 7 below, the Company anticipates opening between 18-24 projects in the current fiscal year. The Company s homes for sale currently range in size from 950 to 5,000 square feet in California, from 1,700 to 4,500 square feet in Texas, from 1,000 to 3,200 square feet in Arizona and from 1,100 to 3,800 square feet in Colorado. The Company s homes are currently priced from $235,000 to $2,100,000 in California, from $146,000 to $900,000 in Texas, from $90,000 to $234,000 in Arizona, and from $128,000 to $400,000 in Colorado. In the Company s Managed Projects in California, the Company s homes are currently priced from $900,000 to $5,600,000 and range in size from 3,400 to 7,800 square feet.

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The following table sets forth the estimated number of homes under construction and lots owned, under option and controlled as of February 28, 2002:

Estimated Number of Housing Units that Could be

Constructed on Land Controlled as of February 28, 2002(a)

Region	Homes Under Construction(b)	Lots Owned	Lots Under Option(c)	Lots Controlled(d)	Total
California	107	507	99	628	1,341
Managed Projects (California)(e)	12	187			199
Texas	77	344	30	1,632	2,083
Arizona	36	577	84	1,460	2,157
Colorado(f)	61	798	77	2,299	3,235
Total	293	2,413	290	6,019	9,015

(a) Based upon current management estimates, which are subject to change. Includes unconsolidated joint ventures.

(b) Includes completed model homes.

(c) Lots under option represent lots under option contracts within existing projects. There can be no assurance that the Company will actually acquire any lots under option.

(d) Controlled home sites include those properties for which the Company has entered into a variety of contractual relationships including non-binding letters of intent, binding purchase agreements with customary conditions precedent and similar arrangements. There can be no assurance that the Company will actually acquire any such properties.

(e) This table includes housing units in the Managed Projects in which the Company s sole economic interest is through management agreements.

(f) This table excludes the CPH Banning-Lewis Ranch, LLC property owned by a joint venture which CPH, Inc. manages and in which it has a substantial profit participation. This joint venture controls approximately 21,400 acres in Colorado Springs, Colorado as further described in footnote (b) to Joint Ventures below.

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The table below summarizes the residential developments in process in the Company s geographic markets:

Projects and Units in Process as of February 28, 2002(a)

Region	Number of Projects Held for Development(b)	Number of Projects in Sales Stage(c)	Total Units Planned(d)	Units Closed in Prior Years	Units Closed in FY 2002	Units Remaining at 2/28/02(d)
California	14	6	1,200	332	155	713
Managed Projects (California)	5	1	278	53	26	199
Texas	8	6	2,128	1,369	308	451
Arizona	8	3	1,664	589	378	697
Colorado(e)	15	7	1,364	250	178	936
Total	50	23	6,634	2,593	1,045	2,996

(a) This table includes the Company s unconsolidated joint ventures. This table also includes the Managed Projects in which the Company s sole economic interest is through management agreements. It does not include Nevada due to the fact that the Company no longer operates in that market.

(b) The number of projects held for development includes projects with houses in the planning, development, construction and sales stages.

(c) The number of projects in the sales stage includes projects where the sales office has opened, reservations are being taken or sales contracts are being executed.

(d) Includes units under construction, in backlog and lots under option in projects owned by the Company or the Managed Projects.

(e) Excludes the CPH Banning-Lewis Ranch, LLC property described in footnote (b) to Joint Ventures below.

Joint Ventures

The Company conducts its operations as either wholly-owned projects or through joint ventures in which the joint venture partner typically provides more than a majority of the capital and/or financing required for the project. The Company has utilized joint ventures in order to increase access to sources of capital, financing and land. The Company expects to continue to utilize joint ventures in the future on a selective basis, taking into account other available sources of financing, project risk and the potential return to the Company. The use of joint ventures may vary in the future in order to enable the Company to control an adequate supply of lots while minimizing capital commitments. The Company typically is required to fund a small percentage of the capital requirements of each joint venture, which amount is included in investments in and advances to unconsolidated joint ventures in the Company s consolidated balance sheets.

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At February 28, 2002, the Company s consolidated subsidiaries, unconsolidated joint ventures and Managed Projects, were as follows:

	Total Units Planned	Units Closed in FY 2002	Units Remaining at 2/28/02
Consolidated Subsidiaries(a)			
CPH Newport Coast, LLC Orange County, CA	97	37	24
CPH Yucaipa I, LLC Riverside County, CA	100	26	70
	197	63	94
Unconsolidated Joint Ventures			
LB/ L-CPH Longmont, LLC Boulder County, CO	448		448
LB/ L-CPH Providence, LLC Riverside County, CA	98	53	45
LB/ L-CPH Laguna Street, LLC Santa Barbara County, CA	14		14
CPH Daily Ranch, L.P. Ventura County, CA	294		294
CPH Banning-Lewis Ranch, LLC El Paso County, CO(b)	(b)		(b)
	854	53	801
Managed Projects(c)			
Makallon RPV Associates, LLC Los Angeles County, CA	79	5	65
Makallon Dana Point, LLC Orange County, CA	44		44
Makallon Monarch Beach, LLC Orange County, CA	65	21	
Makallon Resorts I, LLC Orange County, CA(d)	90		90
	278	26	199
	1,329	142	1,094

(a) Previously consolidated joint ventures, now wholly-owned.

(b) The phasing for this project is currently being determined. The joint venture owns approximately 21,400 acres of entitled land in Colorado Springs, Colorado, including a long-term buildout potential of approximately 76,000 residential units and 79 million square feet of commercial, industrial and office space.

(c) Previously unconsolidated joint ventures. The Company s sole economic interest in the Managed Projects is through management agreements.

(d) Includes two residential projects.

Land Acquisition

For typical residential developments, CPH LLC tries to purchase and hold land in amounts sufficient to support home production and sales over a 24 to 48 month period. CPH LLC also tries to maintain additional supplies of land through options and other means. CPH LLC typically does not acquire and hold land for speculative investment, but on several occasions has sold some or all of the lots in a project simultaneously with the acquisition of such lots by CPH LLC.

CPH LLC typically considers numerous factors when analyzing the suitability of land for acquisition and development including, but not limited to, proximity to existing developed areas; population growth patterns; availability of existing community services (i.e., utilities, schools and transportation); employment growth rates; anticipated absorption rates for new housing; and the estimated cost of development.

CPH LLC tries to avoid speculative building by constraining project phase sizes, and entitlement risks by acquiring entitled land when practicable and acquiring lots through the use of options, development agreements and joint ventures with lot owners, when available on favorable terms. Additionally, by forming joint ventures with various sources of capital, the Company has been able to obtain access to additional capital and construction financing to expand the number of lots the Company controls and to spread project risk.

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Due to increased competition and in some markets a declining supply of favorably priced lots, the Company continues to consider opportunities to purchase unentitled land, re-entitle land, and acquire larger positions in land tracts than can practically be utilized by the Company s homebuilding operations. Where possible and appropriate, the Company will seek outside capital and pursue such activities through joint ventures. In general, and particularly within CPH LLC, all such activities are closely related to CPH LLC s homebuilding activities.

Product Design

The Company has received numerous industry design awards for its homes and developments. The Company has been featured in several nationally known periodicals, on network television and in various international publications. The Company s homes are noted for their innovative design, attention to detail and quality construction. By emphasizing the right product designs, the Company has also been able to build brand loyalty while attempting to reduce warranty costs. In many markets, resales of the Company s homes include the Company s name as a sign of quality construction and design.

The Company contracts with a number of outside architects, designers, engineers, consultants and subcontractors. While some of the Company s employees are involved in various stages of the design process, the Company believes that the use of third parties for the production of the final design, engineering and construction reduces its costs, increases design innovation and quality, and reduces the risks of liability associated with the design and construction process. The Company has a large number of plans which it has used in various projects and can be re-used in new projects with appropriate modifications as necessary. In certain projects the Company offers options and upgrades to provide its homebuilders with opportunities to customize their home to fit their lifestyle, the extent of which varies depending upon the project. However, structural and other changes which impact the build time of the home are limited.

The Company creates architectural variety within its projects by offering numerous models, floor plans, and exterior styles in an effort to enhance home values by creating diversified neighborhood looks within its projects. Generally, the Company selects the exterior finishes of its homes. The Company offers homebuyers the opportunity to engage interior design consultants to personalize the interior of their homes. Such services are offered at an additional cost to buyers either through the Company s wholly-owned subsidiary, Newport Design Center (Newport Design), its design center in Texas or other third parties contracted with by the Company, or the services may be provided through the homebuyer s own consultants.

Development and Construction

The Company typically acts as the general contractor for the construction of its projects and the Managed Projects. Virtually all construction work for the Company is performed by subcontractors. The Company s consultants and employees coordinate the construction of each project and the activities of subcontractors and suppliers, and subject their work to quality and cost controls and compliance with zoning and building codes. Subcontractors typically are retained on a phase-by-phase basis to complete construction at a fixed price. Agreements with the Company s subcontractors are generally entered into after competitive bidding on a project-by-project basis. The Company has established relationships with a large number of subcontractors and is not dependent to any material degree upon the services of any one subcontractor and believes that, if necessary, it can generally retain sufficient qualified subcontractors for each aspect of construction. The Company believes that conducting its operations in this manner enables it not only to readily and efficiently adapt to changes in housing demand, but also to avoid fixed costs associated with retaining construction personnel.

The Company typically develops its residential projects in several phases generally averaging approximately 10 to 15 homes per phase. The Company determines the number of homes to be built in the first phase and the appropriate price range. The first phase of home construction is typically relatively small to reduce risk while the Company measures consumer demand. Construction generally does not begin until some sales have occurred, except for construction of model homes and in some cases the first few additional homes. Subsequent phases are generally not started until 50% to 75% of the homes in the previous phase have been

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sold. Sales prices in the second phase are then adjusted to reflect market demand as evidenced by sales experience in the first phase. With each subsequent phase, the Company continues to accumulate data which enables the Company to make decisions on the pricing, timing and size of subsequent phases. Although the time required to complete a phase varies from development to development depending on the above factors and the build time which in turn varies generally with the size and complexity of the home, the Company typically completes construction of a phase within one of its California developments in approximately six to ten months for larger homes and four to five months for smaller homes and within its Texas, Arizona and Colorado developments within three to five months. The Company is continuously developing and refining its production practices in order to reduce cycle time within the construction process.

Sales and Marketing

The Company typically builds, furnishes and landscapes model homes for each residential project and maintains on-site sales offices, which are usually open seven days a week. The Company generally sells all of its homes through Company sales representatives who typically work from the sales offices located either at the model homes or at sales centers used in each subdivision. When appropriate, the Company also uses cooperative brokers to sell its homes.

The Company generally opens an on-site sales office before the construction of the model homes is completed. This on-site sales office is utilized to commence the sales process to potential customers. The sales center is later generally moved to one of the model homes. Potential homebuyers may reserve a home by submitting a refundable deposit (a reservation deposit) usually ranging from $500 to $20,000 and executing a reservation document. The Company then conducts preliminary research concerning the credit status of the potential homebuyer in order to pre-qualify the homebuyer. Once the prospective homebuyer has been pre-qualified and there is a strong indication that the homebuyer will qualify for a mortgage (although final loan approval is still pending), the homebuyer must then convert the reservation deposit to an earnest money deposit and complete a purchase contract for the purchase of their home. The Company attempts to keep its contract cancellation rate low by attempting to pre-qualify prospective homebuyers and by allowing homebuyers to customize their homes at an early point in the purchase process. When home purchase contracts are canceled, damages are usually limited to a percentage of the purchase price of the home and may be less pursuant to applicable law or to the terms of the purchase contract. The Company generally determines whether to seek to obtain such damages on a case-by-case basis. When home purchase contracts are canceled, the Company seeks to identify alternate homebuyers.

The Company makes extensive use of advertising and promotional resources, including newspaper and magazine advertisements, brochures, direct mail and the placement of strategically located signboards and occasionally places radio and television advertisements. Because the Company usually offers multiple projects within a market area, it is able to utilize regional advertising that highlights all of the Company s projects within that same market area. The Company s wholly-owned subsidiary, Creative Design & Media, designs most advertising materials and brochures for the Company s California operations.

The Company has established a highly sophisticated website on the Internet, www.cph-inc.com. The Company utilizes the Internet through its website address and through participation in a builder-sponsored web joint venture to augment its advertising and promotional activities.

The Company provides flooring and other amenities and upgrades to its homebuyers through Newport Design and various owned and contracted facilities.

Capital Pacific University

The Company has established a training vehicle for its employees called Capital Pacific University (CPU). The mission of CPU is to create a teaching and learning environment that stimulates personal growth and professional improvement.

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Operating Data

The following table shows new home and lot deliveries, net new orders and average sales prices for each of the last three fiscal years for each of the Company s residential operations, including unconsolidated joint ventures but excluding Managed Projects:

	Year Ended		
	February 29, 2000	February 28, 2001	February 28, 2002
New homes delivered:			
California	58	68	101
Texas	471	426	305
Nevada	339	231	69
Arizona	358	240	172
Colorado	42	198	139
Subtotal	1,268	1,163	786
Unconsolidated Joint Ventures (California)	28	46	53
Total homes delivered	1,296	1,209	839
Lots delivered	710	990	295
Total homes and lots delivered	2,006	2,199	1,134
Net new orders	1,397	1,155	782
Average sales price for homes delivered:			
California (excluding unconsolidated joint ventures)	$898,000	$1,518,000	$1,193,000
California (including unconsolidated joint ventures)	935,000	1,458,000	880,000
Texas	189,000	203,000	260,000
Nevada	206,000	211,000	238,000
Arizona	144,000	159,000	152,000
Colorado	193,000	212,000	237,000
Combined (excluding unconsolidated joint ventures)	216,000	274,000	350,000
Combined (including unconsolidated joint ventures)	233,000	315,000	346,000

Backlog and Inventory

The Company typically pre-sells homes prior to and during construction through home purchase contracts requiring earnest money deposits or through reservation documents requiring reservation deposits. Generally, reservation deposits are refundable, but home purchase contracts are not cancelable unless the customer is unable to sell their existing home, qualify for financing or under certain other circumstances. A home sale is placed in backlog status upon execution of such a contract and receipt of an earnest money deposit and is removed when such contracts are canceled as described above or the home purchase escrow is closed.

The following table shows backlog in units and dollars at the end of each of the last three fiscal years for each of the Company s residential operations, including unconsolidated joint ventures. Backlog data does not include Managed Projects at February 28, 2001 or 2002.

	Ending Backlog					
	February 29, 2000		February 28, 2001		February 28, 2002	
	Units	($000s)	Units	($000s)	Units	($000s)
California	52	$ 62,000	71	$ 69,900	63	$47,200
Texas	272	54,700	265	68,800	64	18,500
Nevada	97	20,200	45	11,400		
Arizona	71	11,100	56	8,500	33	4,400
Colorado	106	18,400	75	15,000	34	4,200
Total	598	$166,400	512	$173,600	194	$74,300
Selling Communities	41		26		22	

The following table shows net new orders (sales made less cancellations and credit rejections), homes closed and ending backlog relating to sales of the Company s homes and homes under contract for each quarter since the beginning of fiscal year 2001, including unconsolidated joint ventures, and excluding Managed Projects as of February 28, 2001. The Company s backlog at any given time is typically a good indicator of the number of units that will be closed in the four to six months following such date:

	Net New Orders	Homes Closed	Ending Backlog	
			Units	($000s)
Fiscal Year 2001				
1st Quarter	375	326	647	$235,300
2nd Quarter	302	319	630	247,800
3rd Quarter	290	260	660	249,400
4th Quarter	188	304	512	173,600
Total Fiscal Year 2001	1,155	1,209		
Fiscal Year 2002				
1st Quarter	209	253	439	$146,500
2nd Quarter	119	195	350	116,700
3rd Quarter	181	181	291	91,200
4th Quarter	273	210	194	74,300
Total Fiscal Year 2002	782	839		

Mortgage Company

The Company offers mortgage broker services to certain of its California homebuyers through its wholly-owned subsidiary Capital Pacific Mortgage, Inc. The Company also offers mortgage broker services to certain of its Texas homebuyers through its unconsolidated joint venture, Fairway Financial L.P. In addition, the Company has established certain relationships, including joint venture investments, with local mortgage broker operations in other operating regions.

Homeowner Warranty

The Company provides homeowners with a limited warranty on the terms of which the Company will warrant, for a limited period, items listed in the homeowner warranty manual. The warranty does not, however, include items that are covered by manufacturer s warranties (such as appliances and air conditioning) or items that are not installed by employees or contractors of the Company (such as flooring installed by an outside contractor employed by the homeowner). The Company also provides certain homebuyers with policies issued by third-parties that extend protection beyond the Company s warranty period. Statutory requirements in the states in which the Company does business may grant to homebuyers rights in addition to those provided by the Company.

Competition

The homebuilding industry is highly competitive. In each of the markets in which it operates, the Company competes in terms of location, design, quality and price with numerous other residential builders, including large national and regional firms, many of which have greater financial resources than the Company. The Company has seen the financial resources of its competitors increase with the consolidation which the industry has experienced in the past few years. As the Company enters and until it develops a reputation in a new market area, the Company can expect to face even more significant competitive pressures. In certain markets, the Company may from time to time engage in redesigns of product and/or make changes in existing model homes to make the Company s product more competitive. Such redesigns and/or changes may cause the Company to incur additional expenses and/or to write-off previous investments in such design or model homes.

Regulation

The housing and land development industries are subject to increasing environmental, building, zoning and real estate sales regulations by various federal, state and local authorities. Such regulations affect home building by specifying, among other things, the type and quality of building materials that must be used, certain aspects of land use and building design, as well as the manner in which the Company conducts sales activities and otherwise deals with customers. Such regulations affect development activities by directly affecting the viability and timing of projects.

The Company must increasingly obtain the approval of numerous government authorities which regulate such matters as land use and level of density, the installation of utility services, such as water and waste disposal, and the dedication of acreage for open space, parks, schools and other community purposes. If such authorities determine that existing utility services will not adequately support proposed development, building moratoria may be imposed. As a result, the Company devotes an increasing amount of time to evaluating the impact of governmental restrictions imposed upon a new residential development. Furthermore, as local circumstances or applicable laws change, the Company may be required to obtain additional approvals or modifications of approvals previously obtained. Such increasing regulation has resulted in a significant increase in time (and related carrying costs) between the Company s initial acquisition of land and the commencement and completion of its developments, particularly in California and to an increasing extent, all of the Company s markets. In addition, the extent to which the Company participates in land development activities subjects it to greater exposure to regulatory risks.

Employees

As of April 30, 2002, the Company employed 246 persons full-time, compared to 297 persons at April 30, 2001. Of these, 27 were in executive positions, 42 were engaged in sales activities, 87 in project management activities and 90 in administrative and clerical activities. None of the Company s employees is represented by a union and the Company considers its employee relationships to be good.

Raw Materials

All of the raw materials and most of the components used in the Company s business are readily available in the United States. Most are standard items carried by major suppliers. However, a rapid increase in the number of homes started could cause shortages in the availability of such materials, thereby leading to delays in the delivery of homes under construction. In addition, increases in the price of lumber and other materials have a negative impact on margins. In order to maintain its quality standards while providing a product at good value, the Company has used and will under appropriate market circumstances consider the further use of alternative materials, such as metal studs and framing in some of its projects.

Item 2. ***Properties***

The Company leases its office facilities.

Item 3. ***Legal Proceedings***

The Company is involved in routine claims and litigation arising in the ordinary course of its business. A former senior executive officer of the Company has filed a suit styled in part as a shareholder derivative suit which the Company considers to be without merit challenging the Exchange Transaction (described in Note 1 of the Notes to Consolidated Financial Statements). The Company intends to vigorously defend its interests regarding this litigation, including pursuing all available counterclaims and appeals. The legal responsibility and financial impact to the Company with respect to pending litigation cannot be presently ascertained.

Item 4. ***Submission of Matters to A Vote of Security Holders***

None.

PART II

Item 5. ***Market for the Registrant s Common Equity and Related Stockholder Matters***

The Company s Common Stock is traded on the American Stock Exchange (AMEX) under the Symbol CPH. The following table sets forth the quarterly high and low sales prices for the Common Stock for the fiscal periods indicated.

	High	Low
Fiscal 2001		
Fourth Quarter	$3.63	$2.38
Third Quarter	3.69	2.38
Second Quarter	2.69	2.38
First Quarter	3.00	2.75
Fiscal 2002		
Fourth Quarter	$5.30	$3.70
Third Quarter	4.03	2.60
Second Quarter	4.60	3.14
First Quarter	4.65	2.75

Payment of dividends is within the discretion of the Company s Board of Directors and holders of shares of Common Stock are entitled to receive dividends when and if declared by the Board of Directors out of funds legally available therefor. The Company has not paid dividends for over ten years, and has historically retained its earnings. The covenants in the Company s syndicated loan documents have restrictions on permissible dividend payments to the Company from CPH LLC. There can be no assurance that such limits may not become more restrictive.

On May 15, 2002, the Company had approximately 900 beneficial holders of its Common Stock.

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Item 6. ***Selected Financial Data***

The following selected consolidated financial data of the Company is presented as of and for the fiscal years ended February 28, 1998, February 28, 1999, February 29, 2000, February 28, 2001 and February 28, 2002. The selected financial data should be read in conjunction with the Company s audited Consolidated Financial Statements and the notes thereto, and Management s Discussion and Analysis of Financial Condition and Results of Operations, both of which are included elsewhere in this report. Certain reclassifications have been made to the prior years amounts to conform to the current year presentation.

	Last Day of February				
	1998	1999	2000	2001	2002
	(Amounts in thousands, except per share amounts, ratios and operating data)				
Income Statement Data:					
Sales of homes and land	$191,098	$192,422	$290,791	$363,743	$298,701
Cost of sales	148,702	156,493	231,273	272,332	226,373
Impairment loss on real estate assets	8,000				
Gross margin	34,396	35,929	59,518	91,411	72,328
Income (loss) from unconsolidated joint ventures	764	7,949	1,730	(874)	746
Selling, general and administrative expenses	(24,744)	(21,186)	(30,813)	(38,615)	(36,301)
Interest expense(1)	(14,264)	(17,842)	(22,141)	(35,707)	(28,932)
Interest and other income, net	1,391	1,381	1,513	1,927	1,367
Income (loss) from operations	(2,457)	6,231	9,807	18,142	9,208
Minority interest(2)	(469)	(1,850)	(2,835)	(5,628)	(159)
Income (loss) before provision (benefit) for income taxes and extraordinary item	(2,926)	4,381	6,972	12,514	9,049
Provision (benefit) for income taxes	(735)	1,095	1,745	1,786	2,757
Income (loss) before extraordinary item	(2,191)	3,286	5,227	10,728	6,292
Extraordinary item gain on debt retired at less than face value, net of minority interest and taxes			955	1,461	
Net income (loss)	$ (2,191)	$ 3,286	$ 6,182	$ 12,189	$ 6,292
Earnings (loss) before extraordinary item per common share basic and diluted	$ (0.15)	$ 0.23	$ 0.37	$ 0.77	$ 0.43
Extraordinary item per common share			0.07	0.11	
Earnings (loss) per common share basic and diluted	$ (0.15)	$ 0.23	$ 0.44	$ 0.88	$ 0.43
Weighted average common shares basic	14,795	14,237	13,923	13,773	14,620

Weighted average common shares diluted(3)	14,795	14,271	14,014	13,896	14,795
Sales of homes and land (including unconsolidated joint ventures)	$214,093	$271,372	$319,064	$426,447	$313,690
EBITDA(4)	$ 13,023	$ 23,991	$ 31,010	$ 49,679	$ 38,278
Interest incurred	$ 20,400	$ 22,300	$ 24,500	$ 25,700	$ 14,800
EBITDA coverage	0.64x	1.08x	1.27x	1.93x	2.59x

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	Last Day of February				
	1998	**1999**	**2000**	**2001**	**2002**
	(Amounts in thousands, except per share amounts, ratios and operating data)				
Balance Sheet Data and Other Financial Data:					
Real estate projects	$192,347	$261,333	$282,497	$259,873	$203,685
Total assets	251,655	324,763	358,281	309,412	250,195
Notes payable	36,714	91,489	125,809	110,223	116,265
Senior unsecured notes payable(5)	100,000	100,000	88,392	55,592	
Minority interest(5)	30,061	30,032	33,594	7,743	
Stockholders equity(5)	63,050	65,354	70,886	82,780	93,114
Stockholders equity per share	4.41	4.66	5.13	6.01	6.26
Ratio of debt to total capitalization	0.68	0.75	0.75	0.67	0.56
Operating Data (including unconsolidated joint ventures, in units):					
Homes delivered	909	932	1,296	1,209	839
Total homes and lots delivered	969	982	2,006	2,199	1,134
Net new orders	919	1,053	1,397	1,155	782
Homes in backlog	376	497	598	512	194
Dollars in backlog	$115,000	$124,000	$166,400	$173,600	$ 74,300

(1) Represents interest costs initially capitalized to real estate projects which are recognized as interest expense as homes and land are sold.

(2) Includes the minority interest share of earnings in CPH LLC since the financial restructuring in fiscal year 1998.

(3) Reflects dilution due to outstanding warrants and stock options. See Note 1 to the Consolidated Financial Statements.

(4) EBITDA means earnings before interest expense, income taxes, depreciation, amortization, excluding accretion of negative goodwill and deferred gain, and extraordinary items. EBITDA is a widely accepted financial indicator of a company s ability to service debt. However, EBITDA should not be considered as an alternative to operating income or to cash flows from operating activities (as determined in accordance with generally accepted accounting principles) and should not be construed as an indication of operating performance or as a measure of liquidity.

(5) At February 28, 1998 and 1999, February 29, 2000 and February 28, 2001, respectively, minority interest includes $29.8 million, $29.9 million, $32.6 million and $7.7 million of capital in CPH LLC attributable to California Housing Finance, L.P. (CHF). At February 28, 1998 and 1999, February 29, 2000, February 28, 2001 and February 28, 2002, respectively, CPH LLC had total capital of $91.4 million, $92.5 million, $100.1 million, $109.5 million and $109.5 million and was the sole obligor for the balance of the Senior Unsecured Notes Payable, until they were repaid during fiscal 2002.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

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 and the demand for housing; 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 Note 1 of the Notes to Consolidated Financial Statements presented herein, the Company is reporting its results on a consolidated basis with the results of its wholly-owned subsidiaries including CPH LLC. References to the Company in this Item 7 are, unless the context indicates otherwise, also references to such subsidiaries. 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 results of the Company s operations, as well as the results including the Company s unconsolidated joint ventures, for the past three fiscal years. The actual results have been adjusted to 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, in order to facilitate the discussion of the overall results in certain portions of the discussion below.

Results of Operations

(Amounts in thousands)

	Year Ended					
	February 29, 2000		February 28, 2001		February 28, 2002	
	Consolidated	Including Joint Ventures	Consolidated	Including Joint Ventures	Consolidated	Including Joint Ventures
Sales of homes and land	$290,791	$319,064	$363,743	$426,447	$298,701	$313,690
Cost of sales	231,273	254,666	272,332	319,951	226,373	239,113
Gross margin	$ 59,518	$ 64,398	$ 91,411	$106,496	$ 72,328	$ 74,577

During fiscal 2000 and 2001, the amounts in the table above including joint ventures include $6 million and $63 million of revenue, respectively, representing 7 and 46 unit closings, respectively, in joint ventures which became Managed Projects as a result of the Exchange Transaction. During the year ended February 28, 2002, activity in these projects included 26 home closings and revenues of $45.2 million in three Managed Projects, for which the Company was responsible for construction and marketing activity and in which the Company s sole economic interest is through management agreements.

Prior to February 23, 2001, CPH, Inc. had an interest in various joint ventures (the Divested Projects) with an unaffiliated entity, CHF. The Company s interest in these projects was typically as managing member with a 0.7% capital interest and a contingent profits interest (after payment of debt, return of capital and a preferred return) of approximately 30%. On that date and in a follow-on closing on May 31, 2001, the Company divested its interest in these assets in a transaction (the Exchange Transaction) in which CHF transferred to the Company its 32.07% interest in CPH LLC and in the Newport and Yucaipa homebuilding joint ventures in California in return for the Company s capital and contingent profits interest in the Divested Projects and 1,235,000 newly issued shares of its non-voting Common Stock.

As a result of the Exchange Transaction:

CPH, Inc. increased its ownership interest in CPH LLC, which had at the end of fiscal year 2002 a net worth of $109.5 million, from 68% to 100%.

CPH, Inc. also increased its ownership interest in the Newport Coast and Yucaipa projects in California from 68% to 100%.

The Company enhanced its business focus on homebuilding.

CPH LLC was able to substantially lower its borrowing costs by redeeming the remainder of its 12 3/4% Senior Notes and obtaining an unsecured syndicated revolving line of credit with an average borrowing cost of 5.5% in fiscal 2002.

CPH, Inc. eliminated the risk of being required to fund its portion of the future capital needs of the Divested Projects.

Including through earnings during the period, the Company has increased CPH, Inc. s stockholder s equity by $10.3 million since February 28, 2001, from $82.8 million to $93.1 million.

As the financial statement effects of the Exchange Transaction are fully realized, stockholders equity will further increase by the remaining $5.4 million in negative goodwill as well as the remaining $2.8 million of the deferred gain generated by the disposition of the Company s non-core assets.

Once the accounting effects of the Exchange Transaction are fully realized, stockholder s equity per share will have increased by $0.99 or 17% solely as a result of the transaction.

Fiscal 2002 (Year Ended February 28, 2002) Compared to Fiscal 2001 (Year Ended February 28, 2001)

The Company reported income from operations of $9.2 million in fiscal 2002, as compared to income from operations of $18.1 million in fiscal 2001. The Company reported net income of $6.3 million, or $0.43 per share, in fiscal 2002, as compared to net income before extraordinary item of $10.7 million, or $0.77 per share, in fiscal 2001. The Company also experienced an extraordinary gain of $1.5 million, or $0.11 per share, in fiscal 2001, as a result of the retirement of debt at less than face value.

On a consolidated basis, sales of homes and land decreased from $363.7 million in fiscal 2001 to $298.7 million in fiscal 2002. 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 between periods. On a consolidated basis, home and lot closings decreased from 2,153 in fiscal 2001 to 1,081 in fiscal 2002. Sales of homes and land including unconsolidated joint ventures were $313.7 million for fiscal 2002 compared to $426.4 million for fiscal 2001. The decrease was due to a decrease in total unit closings from 2,199 for fiscal 2001 to 1,134 in fiscal 2002 partially offset by an increase in average sales price. Home closings declined from 1,209 in fiscal 2001 to 839 in fiscal 2002, including 46 and 53 homes, respectively, closed in unconsolidated joint ventures. The average home sales price increased from $315,000 in fiscal 2001 to $346,000 in fiscal 2002.

The decrease in total unit closings was due primarily to a reduction in actively selling projects between periods, the Company s exit from the