

CAPITAL PACIFIC HOLDINGS INC

Form DEF 14A

June 16, 2003

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SCHEDULE 14A INFORMATION

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934**

(AMENDMENT NO. __)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement
 Definitive
Proxy
Statement
Confidential, for
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Definitive
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240.14a-11(c) or
sec. 240.14a-12

CAPITAL PACIFIC HOLDINGS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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Fee not required.
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(1) Amount
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Statement No.:

(3) Filing Party:

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CAPITAL PACIFIC HOLDINGS, INC.

**4100 MacArthur Boulevard
Newport Beach, California 92660**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held On July 17, 2003**

The Annual Meeting of Stockholders (the Meeting) of Capital Pacific Holdings, Inc. (the Company) will be held at the Four Seasons Hotel, 690 Newport Center Drive, Newport Beach, California on July 17, 2003 at 9:00 a.m. (Pacific Daylight Saving Time) for the following purposes:

1. To elect directors whose terms expire at the Meeting; and
2. To consider such other matters as may properly come before the Meeting or any adjournment thereof.

Only holders of record of the Company's Common Stock at the close of business on June 10, 2003, will be entitled to notice of and to vote at the Meeting or any adjournment thereof. The Company's stock transfer books will remain open.

A Proxy Statement and Proxy solicited by the Board of Directors are enclosed herewith. Please sign, date and return the Proxy promptly. All stockholders are cordially invited to attend the Meeting.

By Order of the Board of Directors

STEVEN O. SPELMAN, JR.
Corporate Secretary

June 12, 2003

WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE COMPLETE, DATE, AND SIGN THE ENCLOSED PROXY AND MAIL IT PROMPTLY IN THE ENCLOSED ENVELOPE IN ORDER TO ASSURE REPRESENTATION OF YOUR SHARES AT THE MEETING. NO POSTAGE NEED BE AFFIXED IF MAILED IN THE UNITED STATES.

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CAPITAL PACIFIC HOLDINGS, INC.

**4100 MacArthur Boulevard
Newport Beach, California 92660**

PROXY STATEMENT

**FOR ANNUAL MEETING OF STOCKHOLDERS
To Be Held on July 17, 2003**

GENERAL INFORMATION

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Capital Pacific Holdings, Inc. (the Company) for use at the Annual Meeting of Stockholders (the Meeting) to be held on July 17, 2003, and at any adjournment thereof, for the purposes set forth herein. All properly completed proxies will be voted in the manner specified therein. If no choice as to Proxy Item No. 1 (Election of Directors) is specified, proxies will be voted for the election to the Board of Directors of the nominees listed below under

ELECTION OF DIRECTORS. Any proxy given pursuant to this solicitation may be revoked prior to the Meeting by delivering an instrument revoking it or by delivering a duly executed proxy bearing a later date to the Secretary of the Company. A stockholder may elect to attend the Meeting and vote in person notwithstanding the fact that such stockholder has a proxy outstanding.

The Board of Directors has established June 10, 2003, as the record date for determining the stockholders entitled to notice of and to vote at the Meeting. At the close of business on the record date, there were outstanding and entitled to vote 12,907,050 shares of the Company's common stock, \$0.10 par value per share (the Common Stock), with each share being entitled to one vote.

The Company intends to mail this Proxy Statement and the accompanying form of proxy to stockholders on or about June 12, 2003. Copies of the Company's 2003 Annual Report will be mailed to the Company's stockholders along with this Proxy Statement.

ELECTION OF DIRECTORS

(Proxy Item No. 1)

The Company's Board of Directors is comprised of four directors, each of whom are to serve until the next meeting at which directors are elected. At the Meeting, four persons will be elected to serve as directors.

Each of the nominees listed below is currently a director and has been nominated by the Board to serve as a director of the Company until the next annual meeting of the stockholders of the Company following his election. When properly executed and returned, the enclosed proxy will be voted in favor of the election of each of the nominees, unless authority to vote for a nominee is withheld. In the event that a nominee is unable to serve (an event which is not anticipated) or does not receive sufficient votes to be elected, then the person acting pursuant to the authority granted under the proxy will cast votes for the remaining nominees and, in his best judgment, for such other person as he may select in place of such nominee.

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The following table sets forth the name, age, and background information concerning the nominees. Information regarding the nominee's ownership of Common Stock appears under the heading SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT below.

Name	Age	Director Since	Information About Nominees
Hadi Makarechian	55	1992	Mr. Makarechian has been Chairman of the Board of the Company since August, 1992 and served as Chief Executive Officer of the Company from March, 1993 until May, 1996 and since January 1998. Mr. Makarechian has also served as President of the Company since January 1999. Mr. Makarechian was the founder and chairman of Capital Pacific Homes Inc., a real estate development firm located in Newport Beach, California, until it was merged into the Company in 1994.
Karlheinz M. Kaiser	45	1993	Mr. Kaiser is a principal with Christinger Partner AG, a printing company in Switzerland. From August of 1992 through December 1994 Mr. Kaiser was a management consultant with Friedli & Partner, a management consulting firm in Switzerland.
Allan L. Acree	60	1992	Mr. Acree holds the position of Senior Mortgage Officer with Manulife Financial in Washington, D.C. Manulife Financial Corporation is the holding company for the Manufacturers Life Insurance Company and its Subsidiaries. Prior to joining Manulife in July, 1999, Mr. Acree was a principal in A.L. Acree & Associates, a real estate consulting firm based in Rockville, Maryland.
William J. Hadaway	63	2001	Mr. Hadaway is the President of William J. Hadaway, P.A. in Orlando, Florida. He has over 39 years of Public Accounting experience and has been practicing as a sole practitioner or partner in a public accounting firm since 1971.

Meetings and Committees of the Board of Directors; Directors Compensation

Each member of the Board of Directors of the Company who is not also an officer of the Company is compensated at a rate of \$10,000 per year, plus \$1,500 for each meeting of the Board which he attends, and is reimbursed for the expenses of attending meetings. The Board of Directors held 5 meetings during the fiscal year ended February 28, 2003.

The Board of Directors has a standing Audit Committee whose current members are Allan L. Acree, Karlheinz M. Kaiser and William J. Hadaway. Mr. Hadaway serves as Chairman of the Audit Committee. The members of the Committee each receive \$5,000 per year for participating on the Audit Committee. The Audit Committee has the responsibility of (a) reviewing the scope of, and the fees for, the annual audit of the Company and the independence of the outside auditors, (b) reviewing with the independent auditors the Company's accounting practices and policies, (c) reviewing with the independent auditors their final report, (d) reviewing with internal and independent auditors overall accounting and financial controls, and (e) being

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available to the independent auditors for consultation purposes. The Audit Committee held 5 meetings during the fiscal year ended February 28, 2003.

The Board of Directors has a standing Compensation Committee whose current members are Allan L. Acree and Karlheinz M. Kaiser. Messrs. Acree and Kaiser each receive \$2,000 for each meeting attended. The primary function of the Compensation Committee is to advise the Board of Directors with respect to all matters relating to executive compensation. The Compensation Committee held one meeting for the fiscal year ended February 28, 2003.

The Board of Directors does not have a standing nominating committee or other standing committees performing similar functions.

Each current director who was a director at the time of such meetings attended at least 75% of the total of the Board meetings and meetings of the committees of the Board of which he is a member.

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In addition to Mr. Hadi Makarechian, the Company's executive officers are as follows:

Name and Position with Company	Age	Information About Executive Officers
Stephen P. Couig Chief Operating Officer	37	Mr. Couig joined the Company in January 1997, as Senior Vice President, was promoted to Executive Vice President in July 2000 and assumed his current position in May 2001. Prior to joining the Company he served as Executive Vice President in charge of acquisitions for Troon Golf, a Scottsdale, AZ based golf course owner and operator. After receiving his MBA from Dartmouth College in 1993 he was, until 1996, an Associate at Morgan Stanley in the Equity Capital Markets department focusing on business development opportunities.
Dag Wilkinson Chief Legal Officer	47	Mr. Wilkinson joined the Company in September 2001 after serving as outside mergers, acquisition and securities counsel for the Company and its predecessors since 1990. Prior to joining the Company, he was a partner with the Washington D.C. law firm Wiley Rein & Fielding. He is a 1982 graduate of Yale Law School and has a Masters Degree from the Woodrow Wilson School at Princeton University.
Steven O. Spelman, Jr. Chief Financial Officer and Corporate Secretary	42	Mr. Spelman joined the Company in November 1997 as Vice President, Finance and assumed the Chief Financial Officer position in January 1998. He was named Corporate Secretary in September 1998. Prior to joining the Company, Mr. Spelman served with Arthur Andersen LLP for thirteen years, most recently as a Senior Audit Manager, after receiving his MBA from the University of Southern California in 1984.
William A. Funk Senior Vice President	62	Effective April 1, 2003, Mr. Funk assumed the position of Senior Vice President at the Company. From February 23, 2001, until March 2003, Mr. Funk held the position of Senior Vice President with Makar Properties, LLC. During the period from March 1999 through February 23, 2001, Mr. Funk was Senior Vice President, Commercial Development at Capital Pacific Holdings. Mr. Funk also served on the Board of Directors of Capital Pacific Holdings from 1994 February 2001. Prior to that, Mr. Funk was Senior Vice President with Holmes & Narver, an international engineering, design and construction company based in Orange, California. Until June 1997, Mr. Funk was a principal and the Vice President and Western District Manager of The Austin Company, an international design and construction firm based in Cleveland, Ohio.

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Name and Position with Company	Age	Information About Executive Officers
Sherry S. Irani Treasurer and Director of Human Resources	41	Ms. Irani joined the Company in November 1996 as Director of Banking. In 1997, she assumed the additional role of Director of Human Resources. She was named the Corporate Treasurer in July of 2000. Previously, she worked for First Interstate Bank for twelve years on various assignments. Her last position was Senior Financial Services Manager. She has a Bachelor of Science degree in Economics from Simmons College in Boston with advanced studies at London School of Economics.

All executive officers serve at the pleasure of the Board of Directors.

Table of Contents**EXECUTIVE COMPENSATION AND OTHER INFORMATION****Summary of Cash and Certain Other Compensation**

The following table sets forth the cash compensation paid during the fiscal years ended February 28, 2003, February 28, 2002 and February 28, 2001 to each of the five most highly compensated executive officers of the Company in all capacities in which they served, and such other individuals as are required to be disclosed.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Annual Compensation		Long Term Compensation	All Other Compensation(e)
		Salary	Bonus(a)	Number of Securities Underlying Options	
Hadi Makarechian	2003	\$456,750	\$ 196,000		\$9,330
Chairman, Chief Executive Officer and President	2002	435,000	400,000		90
	2001	316,969	1,811,000(b)		160
Stephen P. Couig	2003	300,000	163,000		4,090
Chief Operating Officer	2002	268,750	270,000		3,490
	2001	243,750	400,000	40,000	3,560
Dag Wilkinson	2003	300,000	163,000		4,090
Chief Legal Officer	2002	137,500(c)	110,000		1,007
	2001				
Steven O. Spelman, Jr.	2003	300,000	163,000		4,090
Chief Financial Officer and Corporate Secretary	2002	242,500	220,000		3,490
	2001	214,167	400,000	40,000	3,560
William A. Funk	2003				
Senior Vice President	2002				
	2001	205,077(d)	110,000(d)		4,262
Sherry S. Irani	2003	100,000	47,000		90
Treasurer and Director of Human Resources	2002	91,375	55,000		90
	2001	79,601	65,000	5,000	160

- (a) Bonuses are reported for the fiscal year in which earned, a portion of which was paid in the subsequent fiscal year. This presentation differs from the prior year presentation for certain officers.
- (b) Includes a bonus of \$728,000 paid in respect of a transaction which closed in fiscal 2001. Amounts were paid subsequent to stockholder approval.
- (c) Mr. Wilkinson began employment with the Company on September 1, 2001.
- (d) Mr. Funk terminated his previous employment with the Company effective February 23, 2001, at which time the discretionary bonus earned in fiscal 2001 was paid to him. Mr. Funk was re-employed by the Company on April 1, 2003. His current compensation level is \$220,500 per annum. No compensation was paid by the Company to Mr. Funk during fiscal 2002 or 2003.
- (e) Represents premiums paid by the Company for term life insurance for the benefit of the insured and employer matching contributions to the Company's 401(k) Plan. For the Chairman, includes the amount attributable to personal use of the Company's aircraft.

Stock Options

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Effective February 28, 1995, the Company, as approved by the stockholders of the Company in July 1995, adopted the 1995 Stock Incentive Plan (the 1995 Plan). The 1995 Plan permits a committee designated by the Board of the Company to make awards to key employees and directors of the Company and its

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subsidiaries. Subject to various restrictions, awards could be in the form of stock options, restricted or unrestricted stock, stock appreciation rights or a combination of the above. The maximum number of shares or share equivalents that may be awarded under the 1995 Plan is 1,500,000. In February 1999, the Board of Directors approved a grant of 256,000 stock options under the Plan, effective on February 8, 1999. In addition, stock options to purchase 250,000 shares were granted with effective dates of both September 30, 1999 and September 1, 2000. The stock underlying all of the option grants is the Company's Non-Voting Common Stock, par value \$.10 per share. As of June 10, 2003, there are 2,007,312 shares of the Non-Voting Common Stock outstanding. Since there has been no trading activity for the Non-Voting Common Stock, the value of such Non-Voting Common Stock for purposes of calculating the value of the options (solely for purposes of this Proxy Statement) is assumed to be the market price of the Company's publicly traded voting common stock.

Options Grants In Last Fiscal Year

None

Fiscal Year End Option Values

Name	Shares Acquired On Exercise(#)	Value Realized	Number of Securities Underlying Unexercised Options At Fiscal Year End(#)(1)		Value of Unexercised In-The-Money Options At Fiscal Year End\$(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Hadi Makarechian						
Stephen P. Couig			65,667	13,333	38,830	5,600
Dag Wilkinson						
Steven O. Spelman, Jr.	36,000	104,700	29,667	13,333	16,210	5,600
William A. Funk						
Sherry S. Irani			3,000	1,667	2,093	700

- (1) The nonqualified stock options granted by the Board are scheduled to vest at a rate of 33 1/3% per year over the first three years and to lapse after ten years unless sooner exercised or forfeited. All stock options will vest immediately in the event of either (i) a merger in which the Company does not survive or (ii) a sale of all or substantially all of the Company's assets. All stock options were granted at the closing market price of the Company's voting shares on the date of grant.
- (2) Calculated per share by subtracting the exercise price from the market price of the Company's voting shares on February 28, 2003.

Summary of Securities to be Issued and Available under Equity Compensation Plans

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plan
Equity compensation plans approved by security holders	213,332	\$2.36	1,286,668
Equity compensation plans not approved by security holders			
Total	213,332	\$2.36	1,286,668

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Employment Agreements and Other Arrangements

None of the executive officers is currently working under an employment contract.

Compensation Committee Determination on Executive Compensation

The Compensation Committee (the *Committee*) of the Board of Directors of Capital Pacific Holdings, Inc. (the *Company*) establishes the *Company*'s general compensation policies, compensation plans, and specific compensation levels for the *Company*'s Chief Executive Officer and any other executive officer which may in the future be specifically designated by the Board of Directors. The Compensation Committee also reviews the design, administration and effectiveness of compensation programs for other key executives. The general policy and philosophy of the Compensation Committee is to provide total compensation opportunities that are competitive with the opportunities offered to executives in similar positions at competing companies and to strongly link compensation to the financial performance of the *Company* in an effort to enable the *Company* to attract and retain the key personnel necessary to fuel continued growth and profitability.

The Committee has examined the compensation of the executives of comparatively placed homebuilders to determine whether or not the compensation of the *Company*'s CEO is within the range of his peers. In undertaking such examination, the Committee has sought publicly available information regarding homebuilders which are at a similar stage in their growth and development to that of the *Company*, and therefore compete for the same executive personnel.

Performance-Based Compensation

The *Company* has utilized a performance bonus structure for over five years that is intended to incentivize the *Company*'s CEO and other executive officers to maximize the financial performance of the *Company*. With respect to the CEO, the bonus has in the past been set at four percent (4%) of the *Company*'s pre-tax income. Since Fiscal Year 1999, stockholder's equity in the *Company* has risen from approximately \$65 million to over \$100 million. While this increase does not necessarily bear a causal relationship to the performance bonus structure, the Committee believes that it serves as rational support for maintaining the existing structure.

The Committee has reviewed the *Company*'s performance in Fiscal Year 2003 under the direction of the CEO with respect to homebuilding and effecting strategic transactions, the continued improvement in financial performance and stockholder's equity, and the compensation of chief executives of similarly-placed homebuilders. Based on this information, the Committee found that, taking into account base salary and non-cash compensation, the performance-based compensation derived from application of the existing four percent (4%) of pre-tax income formula is appropriate and consistent with the lower end of the range of the *Company*'s peer group.

Section 162(m) of the Internal Revenue Code of 1986 limits deductions for certain executive compensation in excess of \$1 million. The Code permits deduction of compensation in excess of \$1 million only if it is performance based, the criteria for award are specified in detail, and stockholder approval is obtained prior to payment. The policy of the *Company* is to maintain the tax deductibility of all compensation paid to its executives. The annual performance bonus of the CEO has been structured to meet the requirements for deductibility. Any payments exceeding \$1 million under the compensation structure it has approved will be contingent upon shareholder approval.

Other Compensation

The Committee notes that, unlike most other members of the peer group, prior to Fiscal Year 2003 the *Company*'s CEO received virtually no non-cash compensation. For Fiscal Year 2003, the Committee determined that the CEO should receive certain additional fringe benefits consisting of personal use the *Company*'s aircraft for up to 50 flying hours (subject to the superior right of the *Company* to use the aircraft), only a small portion of which was used. The Committee has considered this element of compensation for Fiscal Year 2004 in light of the overall value of the CEO's compensation package and the aggregate amount

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being paid to chief executives of the Company's peer group. The direct incremental cost to the Company of this benefit continues to be approximately \$2,100 per flying hour, while the amount of income realized by the CEO for such use may be substantially less under applicable regulations. The Committee has considered that the cost to the Company should be deductible in full under current law. In light of the fact that the CEO's aggregate compensation falls at the lower end of the range of the Company's peer group and that a balance of unused flying hours remains, the Committee determined that this non-cash compensation should be continued for Fiscal Year 2004, but increased to 60 flying hours with unused flying hours carried forward into subsequent periods so that the CEO's compensation remains competitive. Accordingly, the Company will properly include the value of the flights in the CEO's income in accordance with applicable rules. Even in the event that the Company is only able to deduct such amount as is included in the CEO's income and assuming that the CEO exercises in full his option to utilize the aircraft for personal use, the other compensation of the CEO is still within the range of the Company's peer group.

Base Salary

The annualized base salary of the Company's CEO was \$456,750 for Fiscal Year 2003. The Company has studied changes in cost of living in the various areas in which its executives are located, including Newport Beach, California, where the cost of living increased by approximately three percent during calendar 2002. Accordingly, the Company has raised the salaries of Newport Beach-based executives by three percent for Fiscal Year 2004, and the Committee has determined to recommend the same increase of the CEO's base salary to \$470,453 for Fiscal Year 2004.

/s/ KARLHEINZ M. KAISER

/s/ ALLAN L. ACREE

Karlheinz M. Kaiser

Allan L. Acree

Dated: June 9, 2003

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The following graph shows a five year comparison of cumulative total returns for Capital Pacific Holdings Inc., American Stock Exchange Market Value Index and Dow Jones Home Construction Industry Group.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN
OF COMPANY, INDUSTRY INDEX AND BROAD MARKET**

	1998	1999	2000	2001	2002	2003
Capital Pacific Holdings, Inc.	100.00	82.76	79.31	93.79	110.34	80.55
Peer Group Index	100.00	79.33	51.92	96.62	149.38	135.92
AMEX Market Index	100.00	97.77	136.18	121.85	113.54	111.90

- (1) The above graph compares the performance of Capital Pacific Holdings, Inc. with that of the American Stock Exchange Market Value Index and the Dow Jones Home Construction Industry Group.
- (2) The comparison of total return on investment (change in year end stock price plus reinvested dividends) for each of the periods assumes that \$100 was invested on March 1, 1998 in each of Capital Pacific Holdings, Inc., the American Stock Exchange Market Value Index and the Dow Jones Home Construction Industry Group.

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL****OWNERS AND MANAGEMENT**

The following table sets forth as of June 10, 2003, the number of shares of Common Stock beneficially owned by each person known to the Company to own more than five percent (5%) of the outstanding shares of Common Stock, by each director of the Company or nominee who owned shares of Common Stock on that date, by each of the officers that are among the five most highly compensated officers of the Company, and by all directors and officers of the Company as a group. This table is based on information supplied to the Company by the executive officers, directors and principal stockholders and on Schedule 13Gs filed with the Securities and Exchange Commission.

Name and Address	Common Stock Beneficially Owned(1)	Percent of Class(1)
CPH2, L.L.C. 4100 MacArthur Boulevard Newport Beach, California 92660	2,438,920	16.4%
CPH3, L.L.C. 4100 MacArthur Boulevard Newport Beach, California, 92660	4,640,694	31.1%
Hadi Makarechian 4100 MacArthur Boulevard Newport Beach, California 92660	7,079,614(2)	47.5%
California Housing Finance, L.P. One Maritime Plaza, Suite 1325 San Francisco, California 94111	4,947,276(3)	33.2%
Makallon, LLC 4100 MacArthur Boulevard Newport Beach, California 92660	772,312(4)	5.2%
Stephen P. Couig 4100 MacArthur Boulevard Newport Beach, California 92660	86,167	0.6%
Steven O. Spelman, Jr. 4100 MacArthur Boulevard Newport Beach, California 92660	29,667	0.2%
Sherry S. Irani 4100 MacArthur Boulevard Newport Beach, California 92660	3,000	0.0%
All Directors and Officers of the Corporation as a Group (8 persons)	7,198,448	47.9%

- (1) Unless otherwise indicated, the Company believes the beneficial owner has sole voting and investment power over such shares. The percentage of shares of Common Stock is calculated assuming that the beneficial owner has exercised any options or other rights to subscribe held by such beneficial owner that are currently exercisable or exercisable within 60 days, and that no other warrants, options or rights to subscribe have been exercised by anyone else.
- (2) Includes 2,438,920 shares of Common Stock held by CPH2, L.L.C., in which Mr. Makarechian may be deemed to have a beneficial ownership interest due to his ownership in CPH2, L.L.C. and 4,640,694 shares of Common Stock held by CPH3, L.L.C. in which Mr. Makarechian may be deemed to have a beneficial interest due to his ownership in CPH3, L.L.C.
- (3) Included in this amount are 1,235,000 non-voting shares of Common Stock issued to California Housing Finance, L.P. in connection with the Exchange Transaction.
- (4) All shares held by Makallon, LLC are non-voting shares of Common Stock.

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Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires that the Company's directors, executive officers and persons who own more than 10 percent of the Company's Common Stock file initial re