

Comstock Homebuilding Companies, Inc.

Form 10-Q

November 09, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2007

Transition Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 1-32375

Comstock Homebuilding Companies, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

11465 Sunset Hills Road

5th Floor

Reston, Virginia 20190

(703) 883-1700

20-1164345
(I.R.S. Employer

Identification No.)

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(Address including zip code, and telephone number, including area code, of principal executive offices)

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 (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 NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of November 4, 2007, 13,852,077 shares of the Class A common stock, par value \$.01 per share, and 2,733,500 shares of Class B common stock, par value \$.01, of the Registrant were outstanding.

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COMSTOCK HOMEBUILDING COMPANIES, INC. AND SUBSIDIARIES

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Table of Contents**COMSTOCK HOMEBUILDING COMPANIES, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands, except per share data)

	September 30,	December 31,
	2007	2006
ASSETS		
Cash and cash equivalents	\$ 8,814	\$ 21,263
Restricted cash	6,527	12,326
Receivables	629	4,555
Due from related parties	162	4,053
Real estate held for development and sale	240,835	405,144
Inventory not owned - variable interest entities	19,496	43,234
Property, plant and equipment	2,096	2,723
Investment in real estate partnership		(171)
Deferred income tax	34,494	10,188
Other assets	18,443	14,114
TOTAL ASSETS	\$ 331,496	\$ 517,429
LIABILITIES AND SHAREHOLDERS EQUITY		
Accounts payable and accrued liabilities	\$ 29,462	\$ 55,680
Due to related parties		1,140
Obligations related to inventory not owned	19,287	40,950
Notes payable	171,559	265,403
Senior unsecured debt	30,000	30,000
TOTAL LIABILITIES	250,308	393,173
Commitments and contingencies (Note 12)		
Minority interest	360	371
SHAREHOLDERS EQUITY		
Class A common stock, \$0.01 par value, 77,266,500 shares authorized, 15,081,777 and 14,129,081 issued and outstanding, respectively	151	141
Class B common stock, \$0.01 par value, 2,733,500 shares authorized, 2,733,500 issued and outstanding	27	27
Additional paid-in capital	151,602	147,528
Treasury stock, at cost (391,400 Class A common stock)	(2,439)	(2,439)
(Accumulated deficit)	(68,513)	(21,372)
TOTAL SHAREHOLDERS EQUITY	80,828	123,885
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 331,496	\$ 517,429

The accompanying notes are an integral part of these consolidated financial statements

Table of Contents**COMSTOCK HOMEBUILDING COMPANIES, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Amounts in thousands, except per share data)

	Three Months Ended September 30, 2007		Nine Months Ended September 30, 2006	
	2007	2006	2007	2006
Revenues				
Revenue - homebuilding	\$ 47,769	\$ 30,367	\$ 201,106	\$ 117,083
Revenue - other	4,217	4,913	11,902	5,489
Total revenue	51,986	35,280	213,008	122,572
Expenses				
Cost of sales - homebuilding	41,748	28,290	181,491	96,746
Cost of sales - other	3,643	4,994	10,947	5,024
Impairments and write-offs	69,017	1,802	77,400	14,717
Selling, general and administrative	7,860	9,903	24,235	25,978
Operating loss	(70,282)	(9,709)	(81,065)	(19,893)
Other income, net	(715)	(330)	(1,361)	(918)
Loss before minority interest and equity in losses of real estate partnership	(69,567)	(9,379)	(79,704)	(18,975)
Minority interest	(2)	12	(7)	17
Loss before equity in losses of real estate partnership	(69,565)	(9,391)	(79,697)	(18,992)
Equity in losses of real estate partnership		(13)		(66)
Total pre tax loss	(69,565)	(9,404)	(79,697)	(19,058)
Income taxes benefit	(27,097)	(3,650)	(30,893)	(7,421)
Net loss	\$ (42,468)	\$ (5,754)	\$ (48,804)	\$ (11,637)
Basic loss per share	\$ (2.63)	\$ (0.36)	\$ (3.04)	\$ (0.78)
Basic weighted average shares outstanding	16,151	15,804	16,046	14,946
Diluted loss per share	\$ (2.63)	\$ (0.36)	\$ (3.04)	\$ (0.78)
Diluted weighted average shares outstanding	16,151	15,804	16,046	14,946

The accompanying notes are an integral part of these consolidated financial statements

Table of Contents**COMSTOCK HOMEBUILDING COMPANIES, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands, except per share data)

	Nine Months Ended September 30,	
	2007	2006
Cash flows from operating activities:		
Net loss	\$ (48,804)	\$ (11,637)
Adjustment to reconcile net loss to net cash provided by (used in) operating activities		
Amortization and depreciation	666	551
Impairments and write-offs	77,400	14,716
Loss on disposal of assets	26	
Minority interest	(7)	17
Equity in losses of real estate partnership		66
Board of Directors compensation	149	
Amortization of stock compensation	1,801	2,523
Deferred income tax	(23,837)	(6,983)
Changes in operating assets and liabilities:		
Restricted cash	5,799	(5,530)
Receivables	3,925	4,242
Due from related parties	3,397	(668)
Real estate held for development and sale	95,931	(133,869)
Other assets	(3,944)	(1,571)
Accounts payable and accrued liabilities	(24,131)	(5,723)
Due to related parties	(1,140)	
Net cash provided by (used in) operating activities	87,231	(143,866)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(64)	(1,609)
Business acquisitions, net of cash acquired		(15,491)
Net cash used in investing activities	(64)	(17,100)
Cash flows from financing activities:		
Proceeds from notes payable	73,951	211,577
Proceeds from senior unsecured debt	30,000	
Payments on junior subordinated debt	(30,000)	
Proceeds from junior subordinated debt		30,000
Payments on notes payable	(173,611)	(128,172)
Distributions paid to minority shareholders	(3)	(3)
Proceeds from shares issued under employee stock purchase plan	48	114
Purchase of treasury stock		(2,438)
Proceeds from equity offerings		18,561
Net cash (used in) provided by financing activities	(99,616)	129,639
Net decrease in cash and cash equivalents	(12,449)	(31,327)
Cash and cash equivalents, beginning of period	21,263	42,167
Cash and cash equivalents, end of period	\$ 8,814	\$ 10,840

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Supplemental cash flow information:

Interest paid (net of interest capitalized)	\$	\$	
Income taxes paid	\$	\$	45
Supplemental disclosure for non-cash activity:			
Interest incurred but not paid in cash	\$	5,815	\$ 9,656

The accompanying notes are an integral part of these consolidated financial statements

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COMSTOCK HOMEBUILDING COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except per share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

Comstock Companies, Inc. (the Company) was incorporated on May 24, 2004 as a Delaware corporation. On June 30, 2004, the Company changed its name to Comstock Homebuilding Companies, Inc.

On December 17, 2004, as a result of completing its initial public offering (IPO) of its Class A common stock, the Company acquired 100% of the outstanding capital stock of Comstock Holding Company, Inc. and subsidiaries (Comstock Holdings) by merger, which followed a consolidation that took place immediately prior to the closing of the IPO (the Consolidation). The Consolidation was effected through the mergers of Sunset Investment Corp., Inc. and subsidiaries and Comstock Homes, Inc. and subsidiaries and Comstock Service Corp., Inc. and subsidiaries (Comstock Service) with and into Comstock Holdings. Pursuant to the terms of the merger agreement, shares of Comstock Holdings were canceled and replaced by 4,333 and 2,734 shares of Class A and B common stock of the Company, respectively. Both Class A and B common stock shares bear the same economic rights. However, for voting purposes, Class A stock holders are entitled to one vote for each share held while Class B stock holders are entitled to fifteen votes for each share held.

The mergers of Sunset Investment Corp., Inc. and subsidiaries and Comstock Homes, Inc. and subsidiaries with and into Comstock Holdings (collectively the Comstock Companies or Predecessor) and the Company's acquisition of Comstock Holdings was accounted for using the Comstock Companies' historical carrying values of accounting as these mergers were not deemed to be substantive exchanges. The merger of Comstock Service was accounted for using the purchase method of accounting as this was deemed to be a substantive exchange due to the disparity in ownership.

Our Class A common stock is traded on the NASDAQ National market under the symbol CHCI. We have no public trading history prior to December 17, 2004.

The Company develops, builds and markets single-family homes, townhouses and condominiums in the Washington D.C., Raleigh, North Carolina and Atlanta, Georgia metropolitan markets. The Company also provides certain management and administrative support services to certain related parties.

The interim financial statements of the Company included herein have not been audited by an independent registered public accounting firm. The statements include all adjustments, including normal recurring accruals, which management considers necessary for a fair presentation of the financial position and operating results of the Company for the periods presented. The statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in conformity with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The operating results for interim periods are not necessarily indicative of results to be expected for an entire year.

For further information, refer to the financial statements of the Company and footnotes thereto included in the annual report on Form 10-K and Form 10-K/A of the Company for the year ended December 31, 2006.

2. REAL ESTATE HELD FOR DEVELOPMENT AND SALE

Real estate held for development and sale includes land, land development costs, interest and other construction costs and is stated at cost or, when circumstances or events indicate that the real estate held for development or sale is impaired, at estimated fair value. Land, land development and indirect land development costs are accumulated by specific project and allocated to various lots or housing units within that project using specific identification and allocation based upon the relative sales value, unit or area methods. Direct construction costs are assigned to housing units based on specific identification. Construction costs primarily include direct construction costs and capitalized field overhead. Other costs are comprised of prepaid local government fees and capitalized interest and real estate taxes. Selling costs are expensed as incurred.

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Estimated fair value is based on comparable sales of real estate in the normal course of business under existing and anticipated market conditions. The evaluation takes into consideration the current status of the property, various restrictions, carrying costs, costs of disposition and any other circumstances, which may affect fair value including management's plans for the property. Due to the large acreage of certain land holdings, disposition in the normal course of business is expected to extend over a number of years. A write-down to estimated fair value is recorded when the net carrying value of the property exceeds its estimated discounted fair value. These evaluations are made on a property-by-property basis as seen fit by management whenever events or changes in circumstances indicate that the net book value may not be recoverable.

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COMSTOCK HOMEBUILDING COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except per share data)

Deteriorating market conditions, turmoil in the credit markets and increased price competition have continued to negatively impact the Company in the third quarter of 2007 resulting in reduced sales prices, increased customer concessions, reduced gross margins and extended estimates for project completion dates. As a result, the Company evaluated all 41 of its projects to determine if recorded carrying amounts were recoverable. This evaluation resulted in an aggregate impairment charge of \$61,438 at 26 projects, with \$25,016 in the Washington D.C. region, \$27,304 in the Atlanta, Georgia region and \$9,118 in the Raleigh, N.C. region. Impairment charges are recorded as a reduction in our capitalized land and or house costs. The impairment charge was calculated using a discounted cash flow analysis model, which is dependent upon several subjective factors, including the selection of an appropriate discount rate, estimated average sales prices and estimated sales rates. In performing its impairment modeling the Company must select what it believes is an appropriate discount rate based on current market cost of capital and returns expectations. The Company has used