

## Research Update: PFP HOLDINGS, INC (consolidated)

*Lenders Focus (Publication Date: Jun 15, 2008)*

Debtor in Chapter 11 Bankruptcy, District of Arizona

**PFP HOLDINGS, INC**

890 W. ELLIOT ROAD

#102

GILBERT, AZ 85233

Tax ID / EIN: 20-1778216

Date	Event
01/31/08	Company files Chapter 11 voluntary bankruptcy petition
02/06/08	Company files motion for section 363 sale of substantially all assets free and clear from all liens (proposed sale to T2 LLC, subject to better and higher offers)
02/15/08	Appointment of Official Committee of Unsecured Creditors
03/14/08	Company files schedules and statements of financial affairs
04/18/08	Stipulated order between Company and Bank Group authorizing use of funds claimed as cash collateral
05/13/08	Material terms of modifications (resulting from negotiations with Bank Group) set forth in Amended and Restated Asset Purchase Agreement
05/21/08	Parties agreed in open court to bifurcate the sale process – the sale of Essential Assets would be addressed in the upcoming auction and precede a separate sale of Non-Essential Assets
05/29/08	Sale auction held
06/03/08	Order approving section 363 sale of substantially all assets
06/05/08	Sale of substantially all assets to purchaser closed

## Background

PFP Holdings Inc. (“PFP”) and its affiliates, including the two main asset-holding companies – Trend Homes and Classic Communities filed for Chapter 11 bankruptcy on January 31, 2008. PFP is a large Arizona-based home builder, primarily engaged in the design, construction and sale of single and multi-family homes in the metropolitan Phoenix area.

In 2007, PFP generated consolidated revenue from homebuilding operations of approximately \$309.4 million on the sale of 1,093 homes. In December 2007, it defaulted under a revolving credit facility to the “Franklin Syndicate” (a syndicate of lenders led by Franklin Bank, including RBC Centura, Wachovia, Charter Bank, Reliance Standard Life Insurance Co and Comerica). This facility had a maximum aggregate principal amount of \$130 million. In any case, PFP’s homebuilding operations were suspended in relation to real property collateral claimed by the syndicate and the syndicate started sweeping PFP’s cash accounts.<sup>1</sup>

Since the last update, several events have occurred with a material effect on the economic outcome for all parties involved. PFP’s main restructuring strategy was to undertake a section 363 sale to a private investment firm, Najafi Companies, and re-emerge in a short period. PFP had started marketing its assets even before bankruptcy in order to maximize recovery for creditors and other interested parties. On the day of the Chapter 11 filing, PFP signed a contract to sell the assets for \$61.15 million to an investment vehicle named T2 Homes LLC. Since then, that contract was complicated by several events. Finally, on May 5, 2008, an auction for the sale of those assets was held and on Jun 8, 2008, the Court approved the sale. This Research Update traces the chain of events culminating in the closing of the sale.

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<sup>1</sup> Interestingly, the bankruptcy filing of Trend Homes led to a chain reaction, resulting in elevated uncertainty of the Phoenix real estate market and distress for land bank businesses. E.g., Taro Properties, a “land bank” which relied on home builders to take down lots and had joint development agreements and option agreements on at least 4 projects with Trend Homes, filed for bankruptcy soon after in Aug’08. See our [Research Report on Taro Properties](#).

## The Section 363 Sale

As reported in Bloomberg news on February 13, 2008, PFP did not want its secured bank creditors to be permitted to bid at the auction unless their offer included sufficient cash to pay the expenses of the bankruptcy case. Nonetheless, the sale and purchase agreement with T2 Homes required PFP to obtain, inter alia, a court order approving the sale free and clear of liens and other encumbrances. The bidding procedures would be “tested” by creditor objections and would inevitably be subject to higher and better offers.

Substantially all of the real property assets used in PFP homebuilding operations comprised of finished lots, presold homes and spec homes in the developments owned by Trend Homes and Classic Communities. There are also various parcels of undeveloped lots. Figure 1 summarizes the development, the bank funding it and the initial purchase price allocation from the originally-planned section 363 sale.

**Figure 1: Purchase Price Allocation for Assets in Section 363 Sale**

Master Plan Community	Location	Total Lots	Work in Progress	Bank	Purchase Price Allocation (\$)	Break-Up Fee (\$)
Power Ranch	Gilbert, AZ	233	39	Franklin Syndicate	42,430,370.00	1,272,911.00
Anney	Gilbert, AZ	197	44	Franklin Syndicate		
The Gardens	Gilbert, AZ	23	16	Franklin Syndicate		
Tartesso	Buckeye, AZ	203	29	Franklin Syndicate		
Cortessa	Wadell, AZ	151	109	Franklin Syndicate		
Vistancia	Peoria, AZ	145	29	Franklin Syndicate		
Surprise Farms	Surprise, AZ	13	13	Franklin Syndicate		
Copper Leaf	Phoenix, AZ	50	50	AmTrust Bank	6,197,766.00	185,933.00
Marque at Cooley Station	Gilbert, AZ	112	39	Bank of America	5,950,278.00	178,508.00
Roosevelt Park	Avondale, AZ	462	0	KeyBank	3,000,000.00	90,000.00

Source: Disclosure schedules to Asset Purchase Agreement and Escrow Instructions dated January 30, 2008, filed by PFP in connection with its motion for a section 363 sale.

The above table is based on the original amount offered by T2, LLC of \$65.15 million. Assets in that sale package included the Villa Siena assets (\$7,301,786 in terms of purchase price allocation) as well as the custom home assets financed by Zions Bank (\$185,935) and ACC Capital Corporation (\$83,864).

According to the book values as of 12/31/07 for assets secured by the Franklin Syndicate, Bank of America and AmTrust Bank as well as the respective lien amounts on these assets reported in court filings, the recovery rates appeared pessimistic for the lenders- see Figure 2. The Franklin Syndicate would have recovered around 50% based on the original purchase price allocation. The real estate secured by the Franklin Syndicate was comprised of 7 communities with 753 finished lots, 57 presold homes and 155 spec homes.

On the other hand, the sale would have resulted in close to full recovery for AmTrust. The bank's collateral, the Copperleaf Community, with 40 presold homes and 10 spec homes was considered the healthiest project, according to the first day declaration filed by PFP. Also, AmTrust had continued to advance funds to cover its operating expenses.<sup>2</sup> This was reflected in the percentage difference between the purchase price allocation and book value, which was actually positive.

**Figure 2: Pct Change in Asset Values and Lenders' Recovery Rates from Proposed Sale**

<b>Bank</b>	<b>Outstanding Balance (12/31/07)</b>	<b>Book Value of Assets (12/31/07)</b>	<b>% Change from Purchase Price</b>	<b>Loan-to-Value Ratio (12/31/07)</b>	<b>Estimated Recovery from Sale</b>
Franklin Syndicate	83,900,000.00	111,000,000.00	-61.8%	75.6%	50.6%
Bank of America	7,300,000.00	14,200,000.00	-58.1%	51.4%	81.5%
AmTrust Bank	6,100,000.00	6,100,000.00	1.6%	100.0%	98.4%

Nonetheless, this position was changed after many hours of negotiations between the parties. In essence, the price went up and the assets in the sale package went down. The final result involved the following changes:

1. A bifurcation of the sale process whereby the May '08 auction would relate only to Essential Assets. Non-Essential Assets would be dealt with in a subsequent, separate sale. The Essential Assets mainly comprised the collateral held by Franklin Syndicate – see the revised purchase price allocation in Figure 3. Note that, at this point, T2 had elected to withdraw on bidding on

<sup>2</sup> There was a tussle between PFP and AmTrust in April and May 2008 when the bank has declared a default by the debtors under the post-petition financing stipulation.

some other assets, including the Copperleaf Community secured upon by AmTrust. This was agreed upon by parties in open court during the hearing on May 21, 2008.

2. The claims of the Franklin Syndicate would essentially be satisfied in full.<sup>3</sup> This total amount owed to the Franklin Syndicate had been determined by a final and non-appealable cash collateral order in April 2008 to be \$77,986,729.17 in principal plus accrued interest, charges, etc. PFP would pursue an orderly liquidation of the remaining assets, and there would be no financing or other major contingency.

**Figure 3: Revised Asset Package (Schedules dated May 21, 2008)**

<b>Asset Package</b>	<b>Purchase Price Allocation</b>	<b>Break-Up Fee</b>
<b><u>Essential Assets</u></b>		
<b>Franklin Assets</b>	77,986,729	
<b>Home Show Mortgage Assets</b>	90,000	
<b>Sellers' Model Home Furnishings</b>	57,851	
<b>Operating Assets</b>	258,960	
<b>Total of Essential Assets</b>	78,393,540	500,000
<b><u>Non-Essential Assets</u></b>		
<b>Villa Siena Office Assets</b>	7,000,000	250,000
<b>Duplex Lots</b>	30,000	
<b>Zions Model Home Furnishings</b>	59,141	
<b>Total of Non-Essential Assets</b>	7,089,141	
<b>Total of All Assets</b>	<b>85,482,681</b>	<b>750,000</b>

Under the Asset Purchase Agreement revised in May 2008, T2 LLC would assume the total debt owed to the Franklin Syndicate and cause F6 Homes LLC (an SPV and T2's nominee) to acquire the assets secured by the Franklin Syndicate. The Franklin Syndicate also consented to this sale, subject to the condition that in any subsequent bankruptcy involving its collateral, the automatic stay under bankruptcy protection would not apply and the banks would be free to pursue foreclosure remedies immediately.

<sup>3</sup> Note that this event does not, strictly speaking, mean that the estimated loss given default of the Franklin Syndicate is 0%. The debt has been restructured and assigned to a new entity, and a proper loss given default measure in this case would have to take into account the risk of default by T2 LLC.

Finally, the auction was completed by the end of May. The sale was then approved by court order on June 3, 2008 and closed on June 5, 2008. While the sale to T2 LLC did not include the Non-Essential Assets, the purchase price allocation provides guidance as to its fair market value.

*Postscript added on Dec 5, 2008: AmTrust made a credit bid subsequently in July in the amount of the outstanding loan balance owed by PFP which totaled \$6,740,961.44, but withdrew it subsequently. At the time of writing, there has not been a sale of Copperleaf Communities yet. However, the trustee moved on Dec 4 to sell Villa Siena to R&S Construction for \$6.45 million – about 8% below the purchase price allocation set in May'08. Our next Research Update will discuss the sale process for the remaining assets, current valuations and offer prices, where available.*

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