

# Initiation Report: Wall Homes, Inc

*(Publication Date: Jan 27, 2009)*

Debtor in Chapter 11 Bankruptcy, Northern District of Texas

**Wall Homes** (dba:The Endeavor Group, Inc)

5470 LBJ Freeway

Suite 900

Dallas, TX 75240

Tax ID / EIN: 32-0144649

Date	Event
01/17/09	Company files Chapter 11 voluntary bankruptcy petition; company also files motions to use cash collateral and to sell single-family homes free and clear of liens
01/23/09	Court grants emergency motion authorizing the use of sale proceeds as cash collateral and for lenders to continue advancing funds under pre-petition revolving credit facilities
01/23/09	An agreed interim order was entered authorizing the immediate assumption of certain purchase contracts and the sale of debtors' property in the ordinary course of business free and clear of all liens

## Company Profile

Wall Homes Inc (the "Company") and its wholly-owned subsidiary, Wall Homes Texas LLC, filed for bankruptcy on January 17, 2009. Established in 2005, the Company developed single-family homes for sale in approximately 50 subdivisions located across Texas in the Dallas/Fort Worth, San Antonio, Austin, and Houston areas. The Company generally offer homes for sale from the mid \$100,000 range to the mid \$400,000 range. According to court documents, Warburg Pincus Private Equity VIII LP owns 73.11% of the Company's common stock and 81.55% of preferred stock. Jen I LP owns 12.9% of the common stock and 14.39% of preferred stock.

## Events Leading to Default

Like many residential developers which went into bankruptcy, the Company was affected by the deteriorating residential real estate market. In the first day declaration, the Company stated that, by the summer of 2008, homes purchased on contracts with modest earnest money had a higher failure rate than had previously been experienced. An additional factor leading to the Company's liquidity problem stemmed from lots going "stale", i.e., vacant lots for which it was unable to build houses. Under terms in the credit agreements with lenders, "stale" lots carry reduce borrowing capacities under revolvers, causing a substantial reduction in the credit availability to the Company.

While the Company kept afloat in 2008 by funding their operations through cash received from sale closings, the situation worsened in the fall of 2008. Some lenders began sweeping sales proceeds from the closing table. The Company attempted to work out an arrangement with the lenders but these attempts were unsuccessful. Lenders also indicated that they would no longer fund the construction of any new houses and would only advance funds, in reduced amounts, to complete the construction of the houses already sold but not completed. These cash constraints led to delays in payments to several vendors critical to ongoing operations. Eventually, the Company decided that bankruptcy protection would be appropriate in stabilizing cash flows and working out a reorganization plan.

## Assets and Liabilities

The Company reported total cash on hand (on the bankruptcy date) of \$1,005,853 (excluding collateral and controlled disbursement accounts). It also reported holding \$382,247 of customer deposits in the Earnest Money Account held with Bank of America.

Assets are listed as follows:

- Undeveloped land and vacant lots with an aggregate book values of approximately \$40 million;
- 127 single-family homes (including model homes) which are already constructed and for sale with estimated value of \$28 million;

- 67 single-family homes which have been sold and are under construction with aggregate contractual price of \$15.7 million;
- Option contract agreements with land banks and lot developers for purchase of land in Texas (these options may not have value as the Company might be in default under the agreements).

The Company estimated around \$110 Million in liabilities to bank lenders and trade creditors (debts to the latter were estimated at around \$3.5-4 Million). Lenders' exposure to the bankruptcy of the Company is summarized in the table below, showing the total outstanding amount owed to the respective lender, the unpaid principal and interest, and the type of collateral upon which the debt is secured.

Lender	Total Amt Outstanding(\$)	Principal(\$)	Interest(\$)	Collateral
JPMorgan Chase	18,559,552	18,295,647	263,905	Single-family homes and land
RBC Centura Bank	7,227,805	7,116,471	111,334	Single-family homes and land
Frost National Bank	10,771,069	10,707,515	63,554	Single-family homes and land
Guaranty Bank	18,933,896	18,754,928	178,968	Single-family homes and land
Guaranty Bank	8,000,000			(Letters of credit)
Warburg Pincus	41,886,447	40,831,490	1,054,956	Unsecured; subordinated
Jen I	7,391,110	7,205,557	185,553	Unsecured; subordinated
Comerica Bank	1,961,108	1,958,850	2,258	Undeveloped land

We delved deeper into the details of the loans owed to the lenders secured over the single-family homes and land. The following table shows the aggregate commitment which each bank was obligated to provide under the pre-petition revolving credit facilities, under the column "Original Commitment". The Exposure at Default ("EAD") can then be calculated from the Original Commitment and the total amount outstanding at the time of bankruptcy.

We also provided the maturity date of these revolving credit facilities and the Loan-to-Value ratio ("LTV"), based on the amount owed to lenders and the estimated value of their collateral (these

estimates were provided by the Company in court filings). LTV is one of the measures that lenders use to help assess and monitor the risk associated with real estate lending.

Lender	Original Commitment(\$)	Maturity	EAD	Est Collateral Value	LTV
JPMorgan Chase	30,000,000	15-Jun-09	61.9%	28,000,000	66.3%
RBC Centura Bank	25,000,000	31-May-11	28.9%	10,000,000	72.3%
Frost National Bank	20,000,000	31-May-09	53.9%	15,725,000	68.5%
Guaranty Bank	45,000,000	31-May-08	42.1%	27,000,000	70.1%

Typically, banks declare a default on real estate loans when LTV goes close to 100%. Since the LTV levels in this case are at the 66-72% level, this may be interpreted a pre-emptive strike by the Company in filing for bankruptcy protection prior to reaching default point. Alternatively, it is possible that the collateral values are under-estimated. Assuming an 80% LTV for each loan (a level which would put the asset on special watch-list by many lenders thereby warranting funding restrictions), the values of the property might possibly be considered 10-17% lower.

## Operations in Bankruptcy

### Cash collateral and Bank Financing

One of the significant first day motions by the Company was to obtain authorization to use cash collateral, i.e., cash proceeds from home sales which constitutes collateral of lenders with loans secured on the single-family homes. Without the ability to use these funds, the Company could only make limited, or no, payments to employees, trade creditors, etc, and all operations would cease. This is also important because there were at least 67 homes under construction, and if these were left uncompleted, the value would be substantially reduced.

However, the Company was unable to gain the consent of all lenders and other creditors holding an interest in the cash collateral. Nonetheless, the court granted interim approval on January 23, 2009 to use cash collateral, stating that “[s]uch unfinished structures will become virtually worthless, leaving Lenders and construction vendors without adequate protection of their claims to such properties.” It was determined to be in the best interests of the Company, the lenders, construction vendors, and the

estates' creditors for the Company to continue operations, using the cash collateral, during the Interim Period.

Note, however, that the Company was authorized to use cash collateral as set forth in the Budget (see a copy of the filing in Appendix I). The Company is authorized to pay any line item amount which did not exceed 10% in excess of the budgeted amount. According to the Budget that the Company expects to close 18 home sales by February 5, 2009, generating total revenues of \$4,203,900 and paying \$3,363,120 to the lenders.

The order also authorized the Company to borrow money from the lenders, though it would be in the lenders' "sole and exclusive discretion" to advance funds to the Company on a post-petition basis. Nonetheless, it is possible that the Company might be able to work out a financing arrangement, at least for the single-family homes which are presold and under construction. In the order, the court indicated that the lenders were willing to advance funds for the costs required to complete these residences.

### **Home Sales**

Another significant motion filed by the Company was to obtain authorization to sell the homes in the ordinary course of business. The Company indicated that sale proceeds expected from each closing would exceed the amounts advanced by creditors to construct the houses, and thereby sufficient to repay construction costs. It was imperative to obtain such relief as delays might increase the failure rate of sale closings and impact the Company's ability to continue in operations.

Initially, Guaranty Bank filed a limited objection to the sale of the homes free and clear of its liens owing to the concern that the sale price obtained by the Debtor might be insufficient to pay off the full amount of liens. The bank wanted the Company to demonstrate that the sales price for each lot and house that make up the secured collateral exceeds the value of all liens on such lots and houses. This is a typical type of limited objection filed by lenders which are generally resolved via the granting of replacement liens and other forms of adequate protection to the lenders as security for the indebtedness. As such, an agreed interim order authorizing home sales in the ordinary course of business free and clear was entered on January 23, 2009.

We have attached a list of scheduled closings submitted by the Company on January 23, 2009 in Appendix II.

*We continue to track recent developments of Wall Homes – watch for our next [Research Update](#).*

### Appendix I: Cash Collateral Budget (Jan 16-Feb 5, 2009)

Wall Homes, Inc.					
Cash Projection January 2009					
					1/16/2009
					2/5/2009
Cash at Beg of Period				a)	\$ 1,005,853
House closings (24 scheduled, 18 expected)					18
Revenue (average price \$245,000)	\$ 233,550	avg per house			\$ 4,203,900
Closing expenses (realtor, title policy, etc.)	3.7%				\$ (155,544)
Required Loan Payoffs from house closings (approx. 80% of price)	\$ 186,840	avg per house			\$ (3,363,120)
Vendor payments for construction in progress				b)	\$ (4,500,000)
Borrowings from lenders for construction costs					\$ 4,500,000
Payroll (includes payroll taxes, health insurance)				c)	\$ (373,415)
Warranty and G&A (rent, utilities, EPA, chemcan, etc)					\$ (495,000)
Set-aside for Adequate Assurance Payments to Utilities					\$ (70,000)
Property taxes/HOA payments (excluding land banks)				d)	\$ -
Insurance payments (work comp, GL, Bldr risk)				e)	\$ -
Cash Increase (Decrease) during period					\$ (253,179)
Cash at End of period					\$ 752,674
a) - excludes customer earnest money deposits (\$382,000) and other collateral accounts					
b) - does not include payments to vendors for trailing payables; Includes only payments on homes under construction and assumes lenders will continue to advance funds for these costs.					
c) - reduced payroll (\$283,415) goes out January 29, 2009; health insurance obligations (\$90,000) still due but will receive credit back					
d) - assumes that property taxes (approx. \$1.3 million) and HOA payments (approx. \$120,000) are not made during the Interim Period. Includes \$140,000 est. for property taxes on leased models. Also, includes \$96,000 for personal property taxes.					
e) - current and not due against until after Interim Period					

<b>Wall Homes, Inc.</b>									
<b>Cash Projection January 2009</b>									
(Detailed G&A)									
Office rent		\$	60,000						
Model home rent		\$	80,000						
EPA		\$	20,000						
Misc. Fees & Reimbursements		\$	10,000						
Professional services (security)		\$	12,000						
Chem Can		\$	10,000						
Model and Spec Clean		\$	-						
Model and spec yard care		\$	-						
Subdiv clean and lot mowing		\$	-						
Theft and vandalism		\$	-						
Leased equipment (copiers, etc)		\$	20,000						
Warranty		\$	75,000						
Telecommunications		\$	40,000						
Trailer rent and utilities		\$	13,000						
Utilities - Office and models		\$	70,000						
Postage and office supplies		\$	5,000						
Advertising (billboards, site signs, etc)		\$	80,000						
		\$	495,000						

**Appendix II: Scheduled Closings (Jan'09 and early Feb'09)**

<b>Wall Homes, Inc.</b>				
Scheduled Closing During Interim Period				
Bank Line	SubdivisionName	JobAddress	ModelFlag	EstimatedCloseDate
JP Morgan Chase Bank	Llano Springs	xxxx Hornbeam Drive		15-Jan-09
RBC	Quail Run	xxx High Meadow Road		16-Jan-09
Frost Bank	Glenwood	xxxx Abrams Drive		16-Jan-09
JP Morgan Chase Bank	Bentwood	xxx Bentwood Cove		20-Jan-09
Guaranty Bank	Brookside	xxx Caddis Cove		21-Jan-09
JP Morgan Chase Bank	Bentwood	xxxx Brigid Court		22-Jan-09
JP Morgan Chase Bank	Durango Creek	xxxx Durango Creek Drive		23-Jan-09
Guaranty Bank	West Bend North	xxx Sydney Lane		23-Jan-09
Guaranty Bank	West Bend North	xxx Sydney Lane		23-Jan-09
JP Morgan Chase Bank	LAURA HEIGHTS ESTATES	xxxx Hallie Heights		23-Jan-09
Guaranty Bank	Cumberland	xxxxx Horseshoe Drive		25-Jan-09
Guaranty Bank	Lanai	xxxxx Victoria		25-Jan-09
Frost Bank	Kentsdale Farms	xxx Kittery Drive		28-Jan-09
Guaranty Bank	Hamon Ranch	xxxx Saltbrush Street		29-Jan-09
JP Morgan Chase Bank	Hamon Ranch	xxxx Sand Verbena Way		29-Jan-09
JP Morgan Chase Bank	Hamon Ranch	xxxx Sand Verbena Way		29-Jan-09
Frost Bank	Villages of Sunset Pointe	xxxx Branch Hollow Trail		29-Jan-09
Frost Bank	LAURA HEIGHTS ESTATES	xxxx Laura Heights		29-Jan-09
Guaranty Bank	Bankston Meadows	xxxx Don Drive		30-Jan-09
JP Morgan Chase Bank	Castle Ridge Estates	xxx Glenmere Court		30-Jan-09
Frost Bank	Laura Heights	xxxx Sun Mill		30-Jan-09
Frost Bank	LAURA HEIGHTS ESTATES	xxxx Laura Heights		30-Jan-09
JP Morgan Chase Bank	Bentwood	xxxx Riverwood Drive	1	31-Jan-09
JP Morgan Chase Bank	Laura Heights	xxxxx Mill Berger		01-Feb-09
JP Morgan Chase Bank	Stillwater Ranch	xxxxx Old Stillwater		01-Feb-09
JP Morgan Chase Bank	Laura Heights	xxxx Sun Mill		03-Feb-09

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