

BROOKFIELD HOMES CORP

Form 10-Q

August 09, 2006

**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 June 30, 2006**

**Commission File Number: 001 31524**

**BROOKFIELD HOMES CORPORATION**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**37-1446709**

(I.R.S. Employer  
Identification No.)

**8500 Executive Park Avenue  
Suite 300**

**Fairfax, Virginia**

(Address of Principal Executive Offices)

**22031**

(Zip Code)

**(703) 270-1700**

(Registrant's Telephone Number, Including Area Code)

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 Act).

Yes  No

As of August 3, 2006, the registrant had outstanding 26,604,506 shares of its common stock, \$0.01 par value per share.

**INDEX**  
**BROOKFIELD HOMES CORPORATION**

<b>PART I.</b>	<b>FINANCIAL INFORMATION</b>	<b>PAGE</b>
<b>Item 1.</b>	<b>Financial Statements</b>	
	Consolidated Balance Sheets June 30, 2006 and December 31, 2005	1
	Consolidated Statements of Income Three Months and Six Months Ended June 30, 2006 and 2005	2
	Consolidated Statements of Stockholders Equity Six Months Ended June 30, 2006 and 2005	3
	Consolidated Statements of Cash Flows Three and Six Months Ended June 30, 2006 and 2005	4
	Notes to the Consolidated Financial Statements	5
<b>Item 2.</b>	<b>Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	11
<b>Item 3.</b>	<b>Quantitative and Qualitative Disclosures about Market Risk</b>	16
<b>Item 4.</b>	<b>Controls and Procedures</b>	17
<b>PART II.</b>	<b>OTHER INFORMATION</b>	
<b>Item 1.</b>	<b>Legal Proceedings</b>	17
<b>Item 1A.</b>	<b>Risk Factors</b>	17
<b>Item 2.</b>	<b>Unregistered Sales of Equity Securities and Use of Proceeds</b>	17
<b>Item 3.</b>	<b>Defaults Upon Senior Securities</b>	18
<b>Item 4.</b>	<b>Submission of Matters to a Vote of Security Holders</b>	18
<b>Item 5.</b>	<b>Other Information</b>	18
<b>Item 6.</b>	<b>Exhibits</b>	18
<b>SIGNATURES</b>		19
<b>EXHIBITS</b>		

**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****BROOKFIELD HOMES CORPORATION  
CONSOLIDATED BALANCE SHEETS***(all dollar amounts are in thousands of U.S. dollars)*

		<i>(Unaudited)</i>	
	<b>Note</b>	<b>June 30, 2006</b>	<b>December 31, 2005</b>
<b>Assets</b>			
Housing and land inventory	2	\$ 1,001,161	\$ 912,617
Investments in housing and land joint ventures	3	64,731	53,260
Consolidated land inventory not owned	2	17,925	22,100
Receivables and other assets		41,307	94,081
Cash and cash equivalents		74,767	198,411
Deferred income taxes		45,792	49,417
		\$ 1,245,683	\$ 1,329,886
<b>Liabilities and Equity</b>			
Project specific and other financings	7	\$ 681,204	\$ 691,410
Accounts payable and other liabilities	4	219,920	320,787
Minority interest	2	53,017	53,040
Preferred stock 10,000,000 shares authorized, no shares issued			
Common 65,000,000 shares authorized, 32,073,781 shares issued (December 31, 2005 32,073,781 shares issued)		321	321
Additional paid-in-capital		146,730	146,249
Treasury stock, at cost 5,469,275 shares (December 31, 2005 4,695,600 shares)		(247,355)	(217,182)
Retained earnings		391,846	335,261
		\$ 1,245,683	\$ 1,329,886

*See accompanying notes to financial statements*

**BROOKFIELD HOMES CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

*(all dollar amounts are in thousands of U.S. dollars, except per share amounts)*

		<i>(Unaudited)</i>			
		Three Months Ended		Six Months Ended June	
		June 30,		30,	
	Note	2006	2005	2006	2005
<b>Revenue</b>					
Housing		\$ 193,682	\$ 237,424	\$ 315,505	\$ 380,507
Land and other revenues		38,780	15,006	59,855	24,078
		232,462	252,430	375,360	404,585
<b>Direct Cost of Sales</b>	2	(158,461)	(176,557)	(250,185)	(280,535)
		74,001	75,873	125,175	124,050
Equity in earnings from housing and land joint ventures	3	763	2,279	1,670	9,591
Selling, general and administrative expense		(1,819)	(19,763)	(21,072)	(40,987)
Minority interest		(3,153)	(5,780)	(5,404)	(8,989)
<b>Net Income Before Taxes</b>		69,792	52,609	100,369	83,665
Income tax expense		(26,730)	(20,254)	(38,441)	(32,366)
<b>Net Income</b>		\$ 43,062	\$ 32,355	\$ 61,928	\$ 51,299
<b>Earnings Per Share</b>					
Basic	5	\$ 1.60	\$ 1.05	\$ 2.28	\$ 1.66
Diluted	5	\$ 1.57	\$ 1.03	\$ 2.24	\$ 1.63
<b>Weighted Average Common Shares Outstanding</b> <i>(in thousands)</i>					
Basic	5	26,996	30,998	27,185	30,932
Diluted	5	27,388	31,555	27,602	31,536

*See accompanying notes to financial statements*

**BROOKFIELD HOMES CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**  
*(all dollar amounts are in thousands of U.S. dollars)*

	<i>(Unaudited)</i>	
	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>Common Stock</b>	\$ 321	\$ 321
<b>Additional Paid-in Capital</b>		
Opening balance	146,249	142,016
Stock option exercises	481	4,233
Ending balance	146,730	146,249
<b>Treasury Stock</b>		
Opening balance	(217,182)	(22,091)
Share repurchases	(36,671)	(5,550)
Stock option exercises	6,498	3,756
Ending balance	(247,355)	(23,885)
<b>Retained Earnings</b>		
Opening balance	335,261	125,870
Net income	61,928	51,299
Dividends	(5,343)	(4,968)
Ending balance	391,846	172,201
Total stockholders equity	\$ 291,542	\$ 294,886

*See accompanying notes to financial statements*

**BROOKFIELD HOMES CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(all dollar amounts are in thousands of U.S. dollars)*

	<i>(Unaudited)</i>			
	<b>Three Months Ended</b>		<b>Six Months Ended June</b>	
	<b>June 30,</b>		<b>30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Cash Flows From Operating Activities</b>				
Net income	\$ 43,062	\$ 32,355	\$ 61,928	\$ 51,299
Adjustments to reconcile net income to net cash used in operating activities:				
Distributed income from housing and land joint ventures	504	209	990	238
Minority interest	3,153	5,780	5,404	8,989
Deferred income taxes	3,096	(369)	3,778	(961)
Other changes in operating assets and liabilities:				
Decrease/(increase) in receivables and other assets	2,016	(1,275)	52,774	42,912
Increase in housing and land inventory	(1,833)	(35,552)	(91,626)	(144,890)
(Decrease)/increase in accounts payable and other	(10,690)	50,229	(81,147)	10,064
Net cash (used in)/provided by operating activities	39,308	51,377	(47,899)	(32,349)
<b>Cash Flows From Investing Activities</b>				
Investments in housing and land joint ventures	(10,158)	(4,299)	(19,091)	(9,678)
Recovery from housing and land joint ventures	5,651	13,393	6,630	28,906
Net cash (used in)/provided by investing activities	(4,507)	9,094	(12,461)	19,228
<b>Cash Flows From Financing Activities</b>				
Net (repayments)/borrowings under revolving project specific and other financings	9,189	5,654	(10,206)	23,454
Distributions to minority interest	(2,100)	(10,293)	(14,117)	(19,782)
Contributions from minority interest	1,222	4,070	2,889	8,242
Repurchase of common shares	(26,973)	(4,594)	(36,671)	(5,550)
Exercise of stock options	56	244	164	244
Dividends paid in cash	(5,343)	(4,968)	(5,343)	(4,968)
Net cash (used in)/provided by financing activities	(23,949)	(9,887)	(63,284)	1,640
(Decrease)/increase in cash and cash equivalents	10,852	50,584	(123,644)	(11,481)
Cash and cash equivalents at beginning of period	63,915	124,669	198,411	186,731
Cash and cash equivalents at end of period	\$ 74,767	\$ 175,250	\$ 74,767	\$ 175,250

**Supplemental Cash Flow Information**

Interest paid	\$ 13,071	\$ 10,841	\$ 25,097	\$ 16,612
Income taxes paid	\$ 24,245	\$ 4,584	\$ 38,810	\$ 43,995
Non-cash decrease in consolidated land inventory not owned	\$ 1,192	\$ 6,703	\$ 7,257	\$ 13,305

*See accompanying notes to financial statements*

4

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**BROOKFIELD HOMES CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*(Tabular amounts in thousands of U.S. dollars except per share amounts)*

**Note 1. Significant Accounting Policies**

*(a) Basis of Presentation*

Brookfield Homes Corporation (the Company or Brookfield Homes ) was incorporated on August 28, 2002 as a wholly-owned subsidiary of Brookfield Properties Corporation ( Brookfield Properties ) to acquire as of October 1, 2002 all of the California and Washington D.C. Area homebuilding and land development operations (the Land and Housing Operations ) of Brookfield Properties pursuant to a reorganization of its business (the Spin-off ). On January 6, 2003, Brookfield Properties completed the Spin-off by distributing all of the issued and outstanding common stock it owned in the Company to its common stockholders. Brookfield Homes began trading as a separate company on the New York Stock Exchange on January 7, 2003.

The consolidated financial statements include the accounts of Brookfield Homes and its subsidiaries and investments in joint ventures and variable interests in which the Company is the primary beneficiary.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Since they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements, they should be read in conjunction with the Company s consolidated financial statements and footnotes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2005. In the opinion of management, all adjustments necessary for fair presentation of the accompanying consolidated financial statements have been made.

The Company historically has experienced, and expects to continue to experience, variability in quarterly results. The consolidated statements of income for the three months and six months ended June 30, 2006 are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

*(b) Earnings Per Share*

Earnings per share is computed in accordance with Statement of Financial Accounting Standards ( SFAS ) 128. Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding including all dilutive potentially issuable shares under various stock option plans.

*(c) Recent Accounting Pronouncements*

In July 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes , which clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB 109, Accounting for Income Taxes . This Interpretation provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently reviewing the effect of this Interpretation on its consolidated financial statements.

In December 2004, the FASB issued SFAS 123(R), Share-Based Payment. SFAS 123(R) establishes accounting standards for transactions in which a company exchanges its equity instruments for goods or services. In particular, this Statement requires companies to record compensation expense for all share-based payments, such as employee stock options, at fair market value. This Statement became effective January 1, 2006 for the Company and did not have a material impact on its consolidated financial statements. See Note 6, Stock-Based Compensation , for further discussion on share-based payments.

*(d) Variable Interest Entities*

In December 2003, the Financial Accounting Standards Board ( FASB ) issued revised Interpretation 46 ( FIN 46R ), Consolidation of Variable Interest Entities ( VIEs ), an Interpretation of Accounting Research Bulletin 51, Consolidated Financial Statements, which replaces the previous version of FASB Interpretation 46 issued in January 2003 ( FIN 46 ). The decision whether to consolidate a VIE begins with establishing that a VIE exists. A VIE exists when either the total equity investment at risk is not sufficient to permit the entity to finance its activities by itself, or the

**BROOKFIELD HOMES CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*(Tabular amounts in thousands of U.S. dollars except per share amounts)*

equity investor lacks one of three characteristics associated with owning a controlling financial interest. Those characteristics are the direct or indirect ability to make decisions about the entity's activities through voting rights or similar rights, the obligation to absorb the expected losses of an entity, and the right to receive the expected residual returns. The entity with the majority of the expected losses or expected residual return is considered to be the primary beneficiary of the entity and is required to consolidate such entity. The Company has determined that it is the primary beneficiary of certain VIEs which are presented in these financial statements under Consolidated land inventory not owned with the interest of others included in Minority interest. See Notes 2 and 3 for further discussion on the consolidation of land option contracts and joint ventures.

*(e) Segment Information*

The Company designs, constructs and sells a wide range of homes designed to meet the specific needs of each of its markets. For internal reporting purposes, the Company is organized into geographical housing and land regions. Because each of the Company's geographical housing and land regions has similar economic characteristics, housing products and class of prospective buyers, the geographic housing and land regions have been aggregated into a single housing and land segment in accordance with SFAS 131, Disclosure About Segments of an Enterprise and Related Information.

*(f) Reclassification*

Certain prior period amounts in the consolidated financial statements have been reclassified to conform with the June 30, 2006 presentation. In particular, Treasury Stock, Common Stock and Additional Paid-in Capital, which were previously presented in aggregate, have been presented as separate items in the Consolidated Balance Sheet and Consolidated Statement of Stockholders' Equity.

**Note 2. Housing and Land Inventory**

Housing and land inventory includes homes completed, homes under construction, lots ready for construction, model homes and land under and held for development which will be used in the Company's homebuilding operations or sold as building lots to other homebuilders. The following summarizes the components of housing and land inventory:

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
Housing inventory	\$ 463,099	\$ 441,912
Model homes	31,636	20,837
Land and land under development	506,426	449,868
	<b>\$ 1,001,161</b>	<b>\$ 912,617</b>

The Company capitalizes interest which is expensed as housing units and building lots are sold. For the three months ended June 30, 2006 and 2005 and for the six months ended June 30, 2006 and 2005, interest incurred and capitalized by the Company was \$13.1 million and \$10.8 million, \$25.1 million and \$16.6 million, respectively. Capitalized interest expensed for the same periods was \$3.6 million, \$5.8 million, \$6.3 million, and \$8.9 million, respectively. Capitalized costs are expensed as costs of sales on a specific identification basis or on a relative value basis in proportion to anticipated revenue. Included in direct cost of sales is \$140.6 million and \$225.3 million of costs related to housing revenue for the three and six months ended June 30, 2006 (June 30, 2005 \$165.8 million and \$267.4 million) and \$17.9 million and \$24.9 million of costs related to land sales and other revenues (June 30, 2005 \$10.7 million and \$13.1 million).

In the ordinary course of business, the Company has entered into a number of option contracts to acquire lots in the future in accordance with specific terms and conditions of such agreements. Under these option agreements, the Company will fund deposits to secure the right to purchase land or lots at a future point in time. The Company has

evaluated its option contracts and determined that for those entities considered to be VIEs, it is the primary beneficiary of options for 573 lots with an aggregate exercise price of \$17.9 million (December 31, 2005) 577 lots with an aggregate

**BROOKFIELD HOMES CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*(Tabular amounts in thousands of U.S. dollars except per share amounts)*

exercise price of \$22.1 million), which are required to be consolidated. In these cases, the only asset recorded is the Company's exercise price for the option to purchase, with an increase in minority interest of \$11.0 million (December 31, 2005 - \$18.3 million) for the assumed third party investment in the VIE. Where the land sellers are not required to provide the Company financial information related to the VIE, certain assumptions by the Company were required in its assessment as to whether or not it is the primary beneficiary.

Housing and land inventory includes non-refundable deposits and other costs totaling \$90.6 million (December 31, 2005 - \$58.3 million) in connection with options that are not required to be consolidated under the provisions of FIN 46R. The total exercise price of these options is \$786.3 million (December 31, 2005 - \$720.6 million) including the non-refundable deposits identified above. The number of lots for which the Company has obtained an option to purchase, excluding those already consolidated, and their respective dates of expiry and their exercise price are as follows:

<b>Year of Expiry</b>	<b>Number of Lots</b>	<b>Total Exercise Price</b>
2006	3,650	\$ 194,780
2007	3,873	151,407
2008	538	72,725
Thereafter	8,351	367,417
	16,412	\$ 786,329

The Company holds agreements for a further 3,660 acres of land that may provide upon obtaining entitlements additional lots. However, based on the current stage of land entitlement, the Company has concluded at this time that the level of uncertainty in entitling these properties does not warrant including them in the above totals.

**Note 3. Investments in Housing and Land Joint Ventures**

The Company participates in a number of joint ventures in which it has less than a controlling interest. Summarized condensed financial information on a combined 100% basis of the joint ventures is as follows:

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
<b>Assets</b>		
Housing and land inventory	\$ 423,813	\$ 357,833
Other assets	35,578	64,866
	\$ 459,391	\$ 422,699
<b>Liabilities and Equity</b>		
Project specific financings	\$ 280,923	\$ 289,851
Accounts payable and other liabilities	48,677	90,459
Investment and advances		
Brookfield Homes	64,731	53,260
Others	65,060	(10,871)

\$ 459,391      \$ 422,699

<b>Revenue and Expenses</b>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Revenue	\$ 19,391	\$ 27,747	\$ 30,223	\$ 72,096
Expenses	(17,677)	(22,044)	(26,523)	(50,847)
Net income	\$ 1,714	\$ 5,703	\$ 3,700	\$ 21,249
Company's share of net income	\$ 763	\$ 2,279	\$ 1,670	\$ 9,591

**BROOKFIELD HOMES CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*(Tabular amounts in thousands of U.S. dollars except per share amounts)*

In reporting the Company's share of net income, all inter-company profits or losses from housing and land joint ventures are eliminated on lots purchased by the Company.

Joint ventures in which the Company has a non-controlling interest are accounted for using the equity method. In addition, the Company has performed an evaluation of its existing joint venture relationships by applying the provisions of FIN 46R. The Company has determined that for those entities for which this interpretation applies, none of these joint ventures were considered to be a VIE requiring consolidation pursuant to the requirements of FIN 46R. The Company and/or its joint venture partners have provided varying levels of guarantees of debt in its joint ventures. At June 30, 2006, the Company had recourse guarantees of \$1.7 million (December 31, 2005 \$2.0 million) and limited maintenance guarantees of \$83.5 million (December 31, 2005 \$91.6 million) with respect to debt in its joint ventures. As of June 30, 2006, the fair market value of the recourse guarantees was insignificant.

**Note 4. Accounts Payable and Other Liabilities**

The components of accounts payable and other liabilities included in the Company's balance sheet are summarized as follows:

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
Trade payables and cost to complete accruals	\$ 53,518	\$ 86,137
Warranty costs	18,627	17,743
Customer deposits	8,727	12,307
Stock-based compensation	27,421	44,935
Due to minority interest	26,420	39,478
Accrued and deferred compensation	16,974	47,974
Income tax liabilities	61,108	65,039
Other accrued expenses	7,125	7,174
	<b>\$ 219,920</b>	<b>\$ 320,787</b>

**Note 5. Earnings Per Share**

Basic and diluted earnings per